S. HRG. 105–427

# DEPARTMENTS OF VETERANS AFFAIRS AND HOUSING AND URBAN DEVELOPMENT AND INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1998

## HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

ONE HUNDRED FIFTH CONGRESS

FIRST SESSION

ON

## H.R. 2158/S. 1034

AN ACT MAKING APPROPRIATIONS FOR THE DEPARTMENTS OF VETERANS AFFAIRS AND HOUSING AND URBAN DEVELOPMENT, AND FOR SUNDRY INDEPENDENT AGENCIES, BOARDS, COMMISSIONS, CORPORATIONS, AND OFFICES FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1998, AND FOR OTHER PURPOSES

**American Battle Monuments Commission**
**Consumer Product Safety Commission**
**Corporation for National and Community Service**
**Department of Defense—Civil**
**Department of Health and Human Services**
**Department of Housing and Urban Development**
**Department of the Treasury**
**Department of Veterans Affairs**
**Environmental Protection Agency**
**Executive Office of the President**
**Federal Emergency Management Agency**
**General Services Administration**
**National Aeronautics and Space Administration**
**National Credit Union Administration**
**National Science Foundation**
**Nondepartmental witnesses**
**Selective Service System**
**U.S. Court of Veterans Appeals**

Printed for the use of the Committee on Appropriations

Available via the World Wide Web: http://www.access.gpo.gov/congress/senate

U.S. GOVERNMENT PRINTING OFFICE

39–866 cc WASHINGTON : 1998

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-056428-X

## COMMITTEE ON APPROPRIATIONS

TED STEVENS, Alaska, *Chairman*

THAD COCHRAN, Mississippi
ARLEN SPECTER, Pennsylvania
PETE V. DOMENICI, New Mexico
CHRISTOPHER S. BOND, Missouri
SLADE GORTON, Washington
MITCH McCONNELL, Kentucky
CONRAD BURNS, Montana
RICHARD C. SHELBY, Alabama
JUDD GREGG, New Hampshire
ROBERT F. BENNETT, Utah
BEN NIGHTHORSE CAMPBELL, Colorado
LARRY CRAIG, Idaho
LAUCH FAIRCLOTH, North Carolina
KAY BAILEY HUTCHISON, Texas

ROBERT C. BYRD, West Virginia
DANIEL K. INOUYE, Hawaii
ERNEST F. HOLLINGS, South Carolina
PATRICK J. LEAHY, Vermont
DALE BUMPERS, Arkansas
FRANK R. LAUTENBERG, New Jersey
TOM HARKIN, Iowa
BARBARA A. MIKULSKI, Maryland
HARRY REID, Nevada
HERB KOHL, Wisconsin
PATTY MURRAY, Washington
BYRON DORGAN, North Dakota
BARBARA BOXER, California

STEVEN J. CORTESE, *Staff Director*
LISA SUTHERLAND, *Deputy Staff Director*
JAMES H. ENGLISH, *Minority Staff Director*

---

## SUBCOMMITTEE ON VA, HUD, AND INDEPENDENT AGENCIES

CHRISTOPHER S. BOND, Missouri, *Chairman*

CONRAD BURNS, Montana
TED STEVENS, Alaska
RICHARD C. SHELBY, Alabama
BEN NIGHTHORSE CAMPBELL, Colorado
LARRY CRAIG, Idaho

BARBARA A. MIKULSKI, Maryland
PATRICK J. LEAHY, Vermont
FRANK R. LAUTENBERG, New Jersey
TOM HARKIN, Iowa
BARBARA BOXER, California
ROBERT C. BYRD, West Virginia
(ex officio)

JON KAMARCK, *Clerk to Subcommittee*
CAROLYN E. APOSTOLOU
*Minority Staff*
SALLY CHADBOURNE

# CONTENTS


THURSDAY, FEBRUARY 25, 1997

Page

Executive Office of the President: Council on Environmental Quality and Office of Environmental Quality ..... 1
Department of the Treasury: Community Development Financial Institution .. 27
National Credit Union Administration ..... 63

TUESDAY, MARCH 4, 1997

Corporation for National and Community Service ..... 81
U.S. Court of Veterans Appeals ..... 109
American Battle Monuments Commission ..... 121
Department of Defense—Civil: Cemeterial Expenses, Army ..... 139
Selective Service System ..... 145

TUESDAY, MARCH 11, 1997

Consumer Product Safety Commission ..... 155
General Services Administration: Consumer Information Center ..... 165
Department of Health and Human Services: Office of Consumer Affairs ..... 169

TUESDAY, MARCH 18, 1997

Federal Emergency Management Agency ..... 193

TUESDAY, APRIL 8, 1997

Environmental Protection Agency ..... 247

TUESDAY, APRIL 22, 1997

Executive Office of the President: Office of Science and Technology Policy ..... 433
National Science Foundation ..... 457

THURSDAY, MAY 1, 1997

Department of Veterans Affairs: Office of the Secretary ..... 511

TUESDAY, MAY 6, 1997

National Aeronautics and Space Administration ..... 601

TUESDAY, MAY 13, 1997

Department of Housing and Urban Development ..... 665
Nondepartmental witnesses ..... 723
- Department of Veterans Affairs ..... 723
- Department of Housing and Urban Development ..... 732
- Environmental Protection Agency ..... 830
- Federal Emergency Management Agency ..... 889
- National Aeronautics and Space Administration ..... 896
- National Science Foundation ..... 909
- Miscellaneous ..... 923

# DEPARTMENTS OF VETERANS AFFAIRS AND HOUSING AND URBAN DEVELOPMENT AND INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1998

---

**THURSDAY, FEBRUARY 25, 1997**

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, DC.*

The subcommittee met at 9:38 a.m., in room SD–192, Dirksen Senate Office Building, Hon. Christopher S. Bond (chairman) presiding.

Present: Senators Bond, Burns, Stevens, Bennett, Mikulski, and Lautenberg.

## EXECUTIVE OFFICE OF THE PRESIDENT

### COUNCIL ON ENVIRONMENTAL QUALITY AND OFFICE OF ENVIRONMENTAL QUALITY

**STATEMENT OF KATHLEEN MC GINTY, CHAIR**

OPENING STATEMENT OF CHRISTOPHER S. BOND

Senator BOND. Good morning, and welcome to the VA, HUD, and Independent Agencies Subcommittee meeting. We will come to order.

My apologies. I have spent the better part of the morning stuck in traffic. If this were the D.C. appropriations subcommittee, I would have questions on the construction schedule. But all I can do now is apologize to the witnesses, guests, and fellow members.

This is the subcommittee's first hearing on the fiscal year 1998 budget. I welcome the new members of the subcommittee, and I look forward to working with our ranking member, Senator Mikulski, and she probably has a story about traffic on the Baltimore-Washington Parkway which will exceed my story.

I welcome our witnesses and guests.

We will face another year of very difficult budget decisions as Congress continues to focus on its priorities and seeks to balance a budget by the year 2002. I must emphasize the need to continue to be proactive in consolidating and reforming our many Federal programs, including many under the jurisdiction of this subcommittee. There was much to be done over the last several years, but there is a lot of work still to be done.

In particular, after 4 years of sharp decline, the Federal deficit is likely to begin to increase again, so that by 2010, when some of

us, past baby boom and baby boomers, begin to retire, the deficit is going to skyrocket unless Congress makes meaningful policy and spending changes. It took us more than 200 years to acquire our first trillion dollars of debt. We are now increasing our outstanding debt by $1 trillion about every 5 years. This is a mortgage on America's future that is going to be difficult to sustain.

I note, with interest and some concern, the President's budget proposes some $92 billion in budget authority for the departments and agencies under the VA, HUD, and Independent Agencies Appropriations Subcommittee jurisdiction, of which $72 billion is discretionary spending. I would note that this amount represents a proposed increase of approximately $8 billion over the current level. As I understand it, there are discussions underway between leaders, the Congress, the White House, and OMB about reaching a budget agreement. We have some very important spending priorities to meet in this subcommittee, and I will fight to assure that all of our programs are adequately funded, but I would have to say that unless some agreement is reached that is a very ambitious goal for our 602(b) allocation.

PREPARED STATEMENT

This morning we will hear testimony from four of the independent agencies under the subcommittee's jurisdiction, Council on Environmental Quality, the National Credit Union Administration, the Neighborhood Reinvestment Corporation, and the community development and financial institutions fund. While programs covered by today's hearings are small relative to others in the subcommittee's portfolio, they are very important programs and activities that impact millions of Americans.

[The statement follows:]

PREPARED STATEMENT OF SENATOR BOND

The VA, HUD and Independent Agencies Appropriations Subcommittee hearing will come to order. This is the Subcommittee's first hearing on the fiscal year 1998 budget. I welcome the new Members to the Subcommittee, and, as always, I look forward to working closely with our Ranking Member, Senator Mikulski. I also welcome our witnesses and guests this morning.

The Appropriations Committee and the VA/HUD Appropriations Subcommittee will face another year of very difficult budget decisions as the Congress continues to refocus its priorities and seek to balance the federal budget by the year 2002. I cannot emphasize enough the need to continue to be proactive in consolidating and reforming our many federal programs, including many under this subcommittee. We have done much over the last several years, but there is still a lot of work to be done.

In particular, after four years of sharp decline, the federal deficit is likely to begin to increase again so that by 2010, when the babyboomers begin to retire, the deficit will skyrocket unless the Congress makes meaningful policy changes. While it took us more than 200 years to acquire our first trillion dollars of debt, we are now increasing our outstanding debt by a trillion dollars every 5 years, with the total national debt now standing at some $5.3 trillion. This means that every man, woman, and child in our Nation has an individual debt of almost $20,000. This is the mortgage on America's future that we must begin to pay off now.

In particular, I am concerned that the President's budget proposes some $92 billion in budget authority for the departments and agencies under the VA, HUD and Independent Agencies Subcommittee, of which $72 billion is discretionary spending. The amount proposed represents an increase of approximately $8 billion over the current level. And I must tell you, absent some very compelling reasons, it is going to be very difficult for this subcommittee to provide any increases over our 1997 budget levels.

This morning we take testimony from 4 of the independent agencies under the subcommittee's jurisdiction: the Council on Environmental Quality, the National Credit Union Administration, the Neighborhood Reinvestment Corporation and the Community Development Financial Institutions fund. While the programs covered by today's hearing are small relative to others under the subcommittee's portfolio, they are important programs and activities that impact millions of Americans.

PANEL I

We will hear first from Ms. Kathleen McGinty, Chair of the Council on Environmental Policy or CEQ, which is responsible for coordinating federal policy on environmental issues as well as primary responsibility for implementation of the National Environmental Policy Act (NEPA).

The Administration is requesting a budget for CEQ for fiscal year 1998 of $3.02 million and 23 Full-Time equivalent employees. This Budget Request represents an increase for CEQ of $584,000, a 24 percent increase over the fiscal year 1997 Appropriation and an increase of 4 FTE's.

I look forward to your testimony this morning.

PANEL II

The second panel consists of Mr. John Hawke, Jr., the Under Secretary for Domestic Finance for the Department of the Treasury, and Ms. Kirsten Moy, Director of the Community Development Financial Institutions fund program. The Administration's Budget Request for the CDFI Fund asks for an increase of $75 million from $50 million for fiscal year 1997 to $125 million for fiscal year 1998. I also understand that the President also plans to ask for increases each year to bring the 5-year total to $1 billion by fiscal year 2002.

The CDFI fund was established in the Community Development and Regulatory Improvement Act of 1994 to provide equity investments, grants, loans, and technical assistance to new and existing community development financial institutions such as community development banks, community development credit unions, community development loan funds, community development venture capital funds and micro-loan funds.

CDFI funds are intended to enhance the capacity of these institutions to finance economic development, housing, and community development in distressed urban and rural communities.

I am very concerned about the amount of the CDFI funding request, especially as we prioritize the funding needs of some of the primary programs and activities under this subcommittee, such as the renewal of expiring section 8 housing assistance contracts and the additional cost of Veterans medical care. The CDFI fund is the new kid on the block—it has no track record and looks like a number of other programs and activities that are designed to revitalize distressed communities.

In addition, we need to see how well the CDFI funds will leverage other public and private investment in distressed communities and also to what degree any leveraged investment is being drained from other activities and programs currently serving distressed communities. I also am interested in understanding the extent to which CDFI's discourage traditional financial institutions from opening branches and lending in distressed communities. Opening special banks for distressed communities is not necessarily the best way to revitalize and incorporate these communities into, hopefully, the overall economic growth and revitalization of our urban and rural areas.

I look forward to hearing your testimony

PANEL III

The third panel consists of Mr. Norman D'Amours, Chairman of National Credit Union Administration (NCUA), and Mr. George Knight, Executive Director of the Neighborhood Reinvestment Corporation.

NCUA is responsible for the chartering and regulating of federal credit unions. In addition, NCUA administers an insurance fund to carry out a program of insurance for member accounts in federal credit unions and State-chartered credit unions which apply and qualify for insurance. There are currently some 7,200 federally chartered credit unions and it is estimated that approximately 4,500 State-chartered credit unions will be insured by NCUA by the end of 1997.

The NCUA is self-funded through an operating fee on its member institutions and from reimbursements from the insurance fund for administration of the insurance fund.

Second, Mr. Knight will testify on the Administration's budget request for the Neighborhood Reinvestment Corporation which calls for flat funding of $50 million

for fiscal year 1998. Neighborhood Reinvestment was created in 1978 to help local communities establish working partnerships between residents and representatives of the public and private sectors through nonprofit entities which include neighborhood housing services, mutual housing associations and apartment improvement programs. Collectively, these nonprofits are known as the NeighborWorks® network.

Neighborhood Reinvestment and the NeighborWorks® network have a long track record and have become a good model of how the federal government can spend a small amount of money and reap tremendous benefits. For example, as the written testimony ably states, $38.7 million in fiscal year 1996 appropriations allowed the Neighborhood Reinvestment and NeighborWorks® to leverage $420 million in affordable housing investments.

Again, I look forward to the testimony.

STATEMENT OF FRANK R. LAUTENBERG

Senator BOND. In the absence of Senator Mikulski, I will call on Senator Lautenberg for his opening statement.

Senator LAUTENBERG. Thank you, Mr. Chairman. I will be relatively brief, and relatively brief around here may have different meanings for different people, but we will try. [Laughter.]

I thank you for calling this hearing. I welcome Ms. McGinty. If I may be so familiar, Katie, you have made many important contributions here. We are glad to see you here making the case for your small department—small, but important.

Mr. Chairman, the Federal Government may have a single agency devoted to environmental protection, but every agency has environmental responsibilities and interests. The Department of Energy spends more money on hazardous waste cleanup than EPA. The Navy has taken dramatic steps to reduce pollution at sea. And NOAA's weather satellites have provided dramatic scientific information on the ozone hole and global warming.

Additionally, although EPA enforces Superfund, the largest responsible parties are not Fortune 500 companies. They are the Department of Defense and the Department of Energy. Given the many agencies involved in environmental protection, it is important that some organization coordinate environmental policy. And the Council on Environmental Quality performs that critical task. And it generally does a good job.

One area where there have been problems is the processing for reviewing disputes under NEPA, the National Environmental Policy Act. I have some concerns about the process, and I am pleased that the President has proposed to review it, to reinvent it perhaps. For one thing, we need to ensure that environmental impact statements are easier to understand so that public participation can be more meaningful. It is also critical that the environmental impact statement process become a real tool in agency decisionmaking rather than a paperwork exercise, to justify an agency previous intention.

I understand that the President's budget would provide increased funding for four new staffers, to establish primarily a new NEPA process. And I hope that we can find the funds to make that happen. I think it is a very important step. I think that it needs to be attended to, and I think it is a relatively small request to take this important step.

So I look forward to Ms. McGinty's comments on these issues, and I, once again, Mr. Chairman, thank you for holding this hearing.

Senator BOND. Thank you very much, Senator Lautenberg, and since we have been joined by the chairman of the full committee, I would like to call on Senator Stevens for any comments.

Senator STEVENS. Thank you. I have no comment.

Senator BOND. Thank you.

I will now welcome and turn to our ranking member, and say that we are looking forward to working together in another challenging year, and hope that we can pass one good VA, HUD, and Independent Agencies bill, and move on with the business.

Senator Mikulski, welcome.

STATEMENT OF BARBARA A. MIKULSKI

Senator MIKULSKI. Thank you very much, Mr. Chairman, and again, I apologize for my tardiness today. We oversee the space program, and I wish I could do as good a job getting down from Baltimore on the Baltimore-Washington Parkway as our astronauts do fixing the Hubble.

I would like to welcome our new members to the panel, Senators Craig, Harkin, and Boxer, who I know will be active participants, and in this, today's hearing. I am looking forward to hearing what Ms. McGinty has to say about the CEQ's effort to study the effectiveness of its authorizing legislation, the NEPA, and to examine proposals aimed at reinventing the interagency process to carry out that statute. As we look at so many of the issues impacting on the environment, interagency coordination is absolutely essential.

I will also be looking forward to listening to Mr. George Knight of the Neighborhood Reinvestment Corporation, which is really one of the best little agencies I think we have in the Federal Government. It has a modest budget of $50 million, and really does help communities empower themselves. I think you and I appreciate its self-help initiatives.

Also on the issues of the community development, the CDFI, we look forward to hearing what they have to say, particularly leveraging Federal dollars, and the role that they will play in microenterprise initiatives, which I know will be crucial to economic development in our own country. We have seen how they work abroad. I would like to see how they work in our inner cities, and hopefully they can be a tool to welfare reform.

And last but not at all least, I welcome an old colleague, Congressman D'Amours, on behalf of the National Credit Union Administration. I am worried about the credit unions. There are a lot of lawsuits about credit unions. Some are in fragile condition. I just want to be sure that they again are a tool for empowerment at local levels, but yet do not leave us with another unfunded fiasco.

Senator BOND. Thank you very much, Senator Mikulski. We will now hear first from Ms. Kathleen McGinty, Chairman of the Council on Environmental Quality [CEQ], which is responsible for coordinating Federal policy on environmental issues, as well as the primary responsibility for implementation of the National Environmental Policy Act [NEPA], which has already been mentioned here today.

I note the administration is requesting a budget for CEQ in fiscal year 1998 of $3.02 million and 23 full-time equivalents. This budget request represents an increase for CEQ of over $½ million, or

a 24-percent increase over fiscal year 1997 appropriations and an increase of four full-time employees.

I look forward to your testimony. Welcome, Ms. McGinty.

STATEMENT OF KATHLEEN MCGINTY

Ms. MCGINTY. Thank you very much, Mr. Chairman and members of the committee. It is a pleasure to appear before you today to present the President's request for CEQ for fiscal year 1998. I want to start by thanking all of you, and especially your staff, who have been very much available to CEQ in the last years to really help us do our job.

I would like to focus today on three things: First, briefly, the level of our request; second, our work over the past year; and third, I'd like to turn to our top priority for the coming year, which is the reinvention of the National Environmental Policy Act. First, the level of our request.

As you know, Mr. Chairman, CEQ currently operates at a staff level of 19 FTE's and a budget of $2.4 million. Our request today is for 23 FTE's, which would be $3,020,000. As you noted, Mr. Chairman, especially in these budget times, this increase in percentage terms is significant. However, I would like to emphasize to the committee that even at 23 FTE's, CEQ would still be significantly below the average in the Bush administration, which was 31 FTE's, and very significantly below CEQ's peak staffing level of nearly 70 FTE's during the Nixon administration.

These resources are critical, Mr. Chairman, if CEQ is to take on what I will describe in a moment as our very first priority, the comprehensive reinvention of NEPA. Many, including the Western Governor's Association, industry, nongovernmental organizations, and others, have urged us to undertake this effort, and I agree with them, it is a top priority. But I do need resources to get that job done, resources that could be taken out of the daily fire fights that we find ourselves constantly involved in and consumed by, people who are senior, professional, dedicated staff who really can get this job done.

As I noted, I will return to the substance of this endeavor in a moment. Before doing that, I want to turn briefly to some of CEQ's work over the past year that we anticipated in our meetings last year. As this committee is aware, CEQ has responsibility both for immediate oversight of the environmental impact assessment process conducted by every Federal agency, as well as in our capacity as the President's senior environmental policy advisers, policy coordination, and dispute resolution among agencies on environmental matters.

First, environmental assessments. CEQ has worked hard over the last year to use NEPA as it was intended, to improve agency implementation and decisionmaking. For example, CEQ used NEPA to design a process that will allow us to conclude even the most complex habitat conservation plans, and these are the plans that we have developed under the Endangered Species Act that provide for species protection but also gives certainty to landowners. Through NEPA we will complete those processes for even the most complex HCP's in 10 months or less.

I recently returned from Washington State, where I signed our latest HCP with the Governor of Washington. That HCP will cover 1.6 million acres, and gives the State of Washington 70 to 100 years certainty that it has fulfilled its Federal Endangered Species Act obligations. We achieved that through NEPA.

In addition, CEQ responded to the request of Gov. Tony Knowles, the Alaska delegation, members of the oil industry, and others, to launch a process to identify lands for possible oil production and environmental protection in the national petroleum reserve in Alaska. Because of our efforts and because of NEPA's ability to integrate various statutes, we will be able to see that process through to completion in 18 months or less. This builds on our effort that we achieved in just 6 months to allow for the export of oil from the Alaska North Slope.

Through NEPA, CEQ has also worked, for example, to cut processing times for timber salvage sales. Now, we complete them in 1 year instead of the 3 years that was previously required. We worked recently to resolve a longstanding dispute between the Air Force and the FAA that now allows military training activities again to be commenced in Alaska. And we provided most recently for the transfer of the Homestead Air Force Base in Florida to Dade County, FL, but in a way that will ensure that Everglades restoration is not impaired. So we are improving the environmental assessment process and implementation.

On the policy front, CEQ has worked hard coordinating the agencies and resolving disputes. CEQ developed, for example, targeted reforms to RCRA. These reforms will avoid duplication between RCRA and the Clean Water Act. They were developed and signed into law last year, and in their implementation industry will save tens of millions of dollars. CEQ also worked to achieve an agreement that will ensure the financial viability of the Bonneville Power Administration, while also securing significant resources and sufficient resources to protect and restore salmon in the Columbia and Snake Rivers. This agreement was significant not only in substance, but also for the first time it opened up Federal salmon decisionmaking to the tribes and to State and local governments. That had not been done before.

Working with the States' Attorneys General and the International Association of Police Chiefs, CEQ also designed a bill to take on environmental crimes. This bill, among other things, will provide for enhanced partnerships and the sharing of resources between Federal and State and local law enforcement officials.

Finally, CEQ worked to craft significant reforms in a wetlands program, and now with OMB to ensure that nonstructural options are offered to flood victims in the wake of the recent flooding experiences we have seen. So CEQ has worked hard to ensure coordination, coherence, and efficiency in environmental policy matters. NEPA is an effective tool to that end.

Turning briefly now, Mr. Chairman, to our proposal to reinvent NEPA, we hope to build on the progress we have made and that I have just discussed, as well as the new learning and insights we have gained as a result of our NEPA effectiveness study. We are already underway, working with the Western Governors Association; Governors Geringer and Kitzhaber most particularly have

launched working groups in three areas: timber, oil and gas, and grazing. But as the committee knows, NEPA applies to every major Federal action, so there is much more to be done.

We can use NEPA better to integrate environmental concerns, and we know for sure that NEPA is the tool through which we can provide much more access to citizens and State and local government. I would like to launch a multistakeholder process to get this done. I would like to bring in our universities and our best scientists and academic talent. It is indeed my top priority, but, Mr. Chairman, I do need additional resources to get the job done. I look forward to working with the committee to that end.

Thank you.

Senator BOND. Thank you very much, Ms. McGinty. Your full statement, of course, will be made a part of the record. We appreciate your summaries.

ELIMINATION OF CEQ

Ms. McGinty, the first year President Clinton was in office he proposed eliminating CEQ as part of a streamlining effort, and later reversed his decision and decided to support CEQ, but to keep staffing at a modest level. I would note that CEQ is not at the lowest historical staffing level, which was 13, from 1984 to 1989. In fact, the average staffing level, as opposed to the authorized level for the past 16 years, has been just below 19 FTE's. Can you provide us any specific examples from last year which would illustrate where your staffing level fell short?

Ms. MCGINTY. Throughout the course of the last several years, Mr. Chairman, our staffing level has fluctuated. As you noted, in the beginning of the administration the proposal was to establish a new office in the White House to handle these matters. That office would have been staffed at 10 FTE's.

Over the course of the last several years, CEQ has been built back up from 10 to the current level of 19 FTE's, so we have been on average in that range of staff, from 10 to now we have built back up to 19.

Senator BOND. What work was not getting done?

Ms. MCGINTY. I am sorry. For example, on the lesser levels of staffing we are about to present to the committee a combined CEQ annual report. As the committee is aware, Senator Mikulski has often looked to this report for the data, very important data, it contains.

CEQ fell behind in preparing that report. But now we are finally on the verge of catching up, and we have done that by combining 2 years' worth of analysis into one single report.

In addition to that, we also have just recently finished the NEPA effectiveness study, but that, too, was delayed by 1½ years because of reduced funding levels.

Senator BOND. How much of your time do you spend on putting out these reports? Senator Mikulski has suggested making it biannual. Is there that much new information every year that you have to come up with a new report? How much time and effort do you put in on that?

Ms. MCGINTY. It is a significant investment of time and effort. What we have found, however, and we found it when we were

lapsed 1 year in providing the report, is that particularly in academia and many scientists really rely on that annual series of data. They use it for their own studies, their own reports, and again, we found that out as we fell behind in producing that volume of data.

It is a significant investment for us. We do take it very seriously, and what we have found is that there are many people who rely on it.

PROJECT XL

Senator BOND. You mentioned project XL in your written testimony, and you say it is the centerpiece of the administration's effort to reinvent environmental regulation, and the President has indicated his strong support, saying it marks the end of one size fits all Government regulations. When we look at the reality as opposed to the rhetoric, we are a little concerned about it.

You testified 2 years ago the administration would be launching 50 initiatives in 1995. Yet today, as I understand it, there have only been three project approvals, and, in fact, of the eight original pilot XL projects announced in November 1995, only one has been given final approval, and only three additional projects are in negotiation. Three of the original project participants have withdrawn completely, and industry executives have told us that EPA is too enforcement oriented for a voluntary program to succeed. The senior director for environmental affairs for Annheuser Bush, one of the eight pilot projects which later withdrew, said, "we could not seem to get the out of the box thinking we wanted to get out of them."

What lessons have you learned over the past 2 years from project XL? Why have there been so many problems, so little progress, and specifically, what are you doing to see the President's commitment for alternative compliance approaches is carried out?

Ms. MCGINTY. Senator, the project XL, as you indicate, has been a comprehensive effort to really try to produce a whole new way of achieving environmental excellence. Now, in setting that ambitious of a target for ourselves, we also have run into some significant difficulties in getting the job done. I think the difficulties speak really to the newness and the magnitude of what we are trying to take on.

What we have done to continue to work through the program is to reconvene a series of meetings with various stakeholders to really understand the issues that they are encountering with the program. And they seem to boil down to two. The program requires that there be stakeholder participation in implementing the environmental performance plan. The program also requires that in "throwing away the rule book," that a company be willing to achieve superior environmental performance.

Both of those phrases—stakeholder participation and superior environmental performance, have not been well enough understood so that as each project has moved forward there has been confusion with regard to those elements of the program.

Recently, a Federal Register notice was issued to help flush those conflicts out, and a stakeholder process convened to comment on the new suggestions that have been made. Now, over the next several weeks what we will do is reissue that Federal Register notice,

taking in the comments now of participants in the program and try to help provide some clarity with regard to those two concepts that do seem to have proven to be difficult.

Senator BOND. I will come back to that, because I have a couple of more questions on that. But let me turn now to Senator Mikulski.

Senator MIKULSKI. Thank you, Mr. Chairman.

Ms. McGinty, the NEPA effectiveness study identified certain areas, in which there was poor interagency coordination, conflicting regulations, inadequate public participation, too much paperwork, and so on. And having identified those, which can be true of almost any organization in America, your report had no navigational chart or no series of recommendations on how to address those individual issues. Do you have a specific list that you want accomplished and defined timetables that you want? In other words, some of these are more pressing than others. Would you outline your tasks and timetables on addressing the effectiveness study, because resources and staff should define mission and purpose, and mission and purpose is dealt with in these issues. Do you want to comment?

Ms. MCGINTY. Yes; thank you. Starting from the effectiveness study and the five or six themes that came out of that that you just articulated, we have moved from those themes to try to apply them now in the first phase of this reinvention effort to three specific areas. The first one is timber, the second is oil and gas production, and the third is grazing. And what that means is that we want to look in those three sectors to see what the experience is of whether there are conflicting regulations, whether the public is not sufficiently involved. Yes?

Senator MIKULSKI. Just to continue a conversational approach here, so rather than saying I am going to address too much paperwork, what you are doing, then, is taking a topic that actually affects a private sector, like grazing and timber—of which our colleagues here have intense interest in, and then take these four problem areas and look at a topic that affects private sector environmental concerns and does direct impact on the local community. I think that is an excellent way to go about it, rather than something called—not good coordination.

Ms. MCGINTY. Instead of just generalities, we really wanted to get very specific, and one specific thing, for example, that we would like to do, and the timing and the paperwork problems that you mentioned, we want to give people who are seeking Federal leases the opportunity, the right, to come in and negotiate a timeframe, so that they know that the permitting process will take *x* amount of time. But they have the right to come in and be given that certainty. They do not have that now.

Senator MIKULSKI. Let us just take the grazing issue. I know Senator Burns will probably have followup questions in this, but that is what I hope we can do, a more conversational approach.

Grazing is one of your tasks to be dealt with. Do you have a timetable where you say at the end of this period we then hope we will have resolved our internal management processes to have dealt with creating procedures. Not necessarily to make everybody happy with the decisions, but at least our internals and our mechanisms will be in place.

Ms. MCGINTY. Yes; we hope, actually, over the next several months, in a short timeframe, to be able to produce several very concrete recommendations, in the grazing sector for example. We will take those recommendations, and then open the process up. I visited extensively with Governors Geringer and Kitzhaber about this. The University of Wyoming and the University of Montana will be engaged in providing a forum for us to have our recommendations aired by the folks who are most affected.

Senator MIKULSKI. Is it reasonable to expect that those three topics could have been dealt with by the beginning of the fiscal year, October 1?

Ms. MCGINTY. Oh, I believe so, yes. In terms of very specific concrete recommendations, yes.

Senator MIKULSKI. Well, I'd like to ask, Ms. McGinty, that when we are actually at our markup stage we would like to have a progress report, and then what you need to do that, because then, one, we will see if you have made progress, with all due respect, and then second, what it took to make the progress.

Ms. MCGINTY. OK.

Senator MIKULSKI. The second thing is FEMA. You know we are a FEMA-obsessed committee here because that is where all the natural disasters come in. FEMA, as you know, has raised concerns and yellow flashing lights that often environmental mandates, particularly emergency rehabilitation, often impede their efforts. We are not talking about long-range restoration. I wonder if you could talk about your coordination with FEMA, not that we waive or cavalier or swashbuckle over these regs, but when they are out there and we have got floods on the Missouri or like what we faced in Western Maryland, the Potomac, et cetera, you have got to make decisions and you cannot go through a lot of complicated environmental stuff.

Ms. MCGINTY. Yes; absolutely, especially in the context of emergency response. We very recently were faced with this, especially in the wake of the flooding in California. I was contacted by Senator Feinstein and Congressman Fazio, who laid out to me that they thought their constituents were very concerned and confused about this, not certain that they could take emergency actions to respond to the flood.

We called the relevant agencies together—FEMA, the Fish and Wildlife Service, the National Marine Fishery Service, EPA, all of them—and quickly got an analysis done that yes, in fact, there are emergency provisions in each one of these statutes, and that the conditions in California warranted the invocation of those emergency procedures. Within 36 hours we put out statements in California and the Pacific Northwest to make clear that the environmental statutes in no way slowed down or would impede emergency actions to respond to the flood.

Senator MIKULSKI. I am going to offer two suggestions to you, and I know my time is up. It would be wonderful to spend the whole morning talking about this. But two things: First of all, hats off on the California response. But this is going to happen everywhere. And I am going to suggest two things. One, that you might want to think about SWAT teams from these agencies to work with

FEMA exactly on that, at a significant senior level where decisions will have validity.

The other is that when FEMA does its maneuvers, and they do them in States, and they do them in special situations, the earthquake maneuver and so on, their simulations, that you be part of that simulation. And, I think, it would be very innovative, so that when they simulate how to respond to save lives, then you are there to talk about what you would do to follow up to save communities. And think about that, talk to James Lee Witt, and, I think, it could be very innovative, and, I think, it would be very energizing for your staff.

Ms. MCGINTY. That is an excellent suggestion. I will do that.

Senator MIKULSKI. To have SWAT teams and maneuvers.

Ms. MCGINTY. Sounds exhilarating.

Senator LAUTENBERG. It sounds like they will be out there with flack jackets. [Laughter.]

Senator MIKULSKI. I have seen several environmental issues in Maryland where we have had horrendous national disaster years, as has Senator Bond. Senator Lautenberg has very serious issues in New Jersey relating to chemicals.

Anyway, enough said.

Ms. MCGINTY. Thank you.

Senator BOND. Thank you, Senator Mikulski. I feel like we are almost in the Defense Appropriations Subcommittee.

Senator MIKULSKI. Senator Stevens is having a profound impact on my psyche.

Senator BOND. That is a good idea, and you will want to go to Alaska, like the rest of us do this year. It is not required, but it is not a bad idea.

Now let me turn to Senator Burns.

PREPARED STATEMENT OF CONRAD BURNS

Senator BURNS. I have a statement that I want to put in the record, Mr. Chairman.

Senator BOND. Without objection, it will be so ordered.

[The statement follows:]

PREPARED STATEMENT OF SENATOR BURNS

Thank you, Mr. Chairman. Good morning, ladies and gentlemen. Mr. Chairman, I would like to take this opportunity to commend you on your prompt attention to appropriation matters this Congress. We have a lot of work to accomplish this year and, considering our present fiscal situation, it might not be easy to choose which projects to fund. Therefore, it is important that we begin our work quickly with close attention not only to the needs of Federal agencies individually, but to the needs of the Nation.

For example, Mr. Chairman, I have noticed that some agencies are requesting more than double the amount they requested in fiscal year 1997. Mr. Chairman, with the economy in the shape that it is, each Federal agency should be trying to limit their expenses, not increase them, because if we increase the funds for one agency, it means that another agency will have to accept higher cuts than it would have normally expected.

And, unfortunately, Mr. Chairman, we will have to determine if each Federal agency is really a needed organization in today's economy. We must do all that we can to ensure that we do not have two or three agencies performing the same tasks—this only leads to confusion and/or double billing the Federal Government for essentially the same work. It is our job to ensure to the American people that we are spending their hard earned tax payer funds with due diligence.

Again, thank you, Mr. Chairman, for the opportunity to comment on these proceedings and for your timely attention to these vital matters to our Nation.

Senator BURNS. Ms. McGinty, I was going to have you give me 10 reasons why you should be funded at all. Now, I want you to give me 19 reasons why you should be funded at all.

Ms. MCGINTY. OK. I guess I can try. One, I think that we need better coordination among our agencies on environmental matters, and that is CEQ's role.

Two, I think we need to streamline and cut paperwork, and that also is CEQ's role.

Three, I think that in many different Federal decisions environmental impact should be taken into account, and that, again, is CEQ's role.

Four, NEPA is the statute that provides for State and local government participation in Federal decisionmaking.

Senator BURNS. Let us stop right there now. I will let you make 15 of them in writing to me.

It just seems to me if we have, and EPA, they do not want to visit with any other agency, you do not want to visit with any other agency, no other agency wants to visit with you, I just feel like, because you all went to Montana and made a little deal, and that ain't going to fly, is it?

Ms. MCGINTY. I believe we are on track with that, although I am very respectful of your views on this subject.

Senator BURNS. Well, you tell me how it is going to fly, because I will tell you what, Plum Creek has pulled out.

Ms. MCGINTY. Yes; that is right. The Governor, as you might know, is still very much engaged, and has been working with us closely on it. The company is still very much engaged, and has worked in good faith from the beginning of this process, and continues today. The agencies, I think, are producing a lot of good work on this front.

Senator BURNS. But your groups—in other words, your environmental groups in Montana—are not going to allow this thing to move forward, and I think I said at the git-go that this was a pie in the sky, that it just jerks people around, that their lives are in the balance locally. This is policy that was made on a feel-good methodology, and then to come in here and ask for more money and more people to do more crazy things, it is absolutely—I do not see how you can justify it, Katie. And I will tell you what, and I love your smile and I think you are a bright young woman, but I will tell you what, as far as any value to the American people or to the community of Montana or Wyoming or Idaho, and Utah will love you, you tell me what value—and you go out there and you say things to the press that sound good, but it is just not like that. And you made this deal, and then you ask for more money. Boy, I will tell you one thing. I thought I was pretty brazen as an auctioneer, but I am not near as brazen as this.

Ms. MCGINTY. Well, Senator, I certainly respect your opinion, and I certainly understand, and you have made very clear, and have been clear to us from the beginning with regard to the New World Mine proposal about your views on that. But I do believe that CEQ has performed a very valuable role, and continues to, on issues that, I believe, are also very important to your constituents.

Senator Mikulski and I were just discussing what we have done, already, to help streamline things like grazing practices, and to make it easier to provide——

Senator BURNS. How many people do you have there in that CEQ that knows one thing about grazing? Do you have anybody down there from the Society of Range Management?

Ms. MCGINTY. No; I do not.

Senator BURNS. That is right. You do not have one soul down there that can tell us diddly doo about what a cow will eat and what they will not, what a sheep will do and what they will not. Now, you might have some people down there who know the difference between clean water and bad water, but that is about all. And this is what I am saying. We have got an Agriculture Department. In other words, all of this is redundant.

I am going to be right honest with you. I am going to vote to defund this whole thing, because you have not been honest with people, and I am just to the point of frustration like you cannot believe. People's lives are in the balance. And that is what I am saying. We have got people that are making policy that do not know diddly doo about nothing. And I am probably one of them.

Ms. MCGINTY. Senator, it is true that CEQ is not an institution that has specific substantive expertise in the various areas. What CEQ works to do, though, it is the statute that says that people with expertise have to be brought into the decisionmaking process. NEPA is the statute that says you have to open the doors, you have to let the public in, you have to disclose what your intentions are.

I would not presume to second-guess the technical judgment of a particular agency. But when you have two agencies with clashing technical judgment, or when you have an agency that does not want to let State or local government or private citizens participate, that is when we get involved, to try to help repair where there are differences or to ensure that people have an opportunity to participate.

But you are exactly right. It is not an institution with a cadre of scientists or a cadre of economists in specific disciplines.

Senator BURNS. But you put a lot of weight on NEPA. Yet you went out there and interjected your own decision before the NEPA process was allowed to be completed. You do not even have faith in your own law in NEPA. You made that decision on the New World Mine before the NEPA process was completed.

Ms. MCGINTY. That is absolutely true, Senator.

Senator BURNS. Well, then why?

Ms. MCGINTY. Because the NEPA process is invoked when a Federal Government agency is going to undertake an action and/or when a citizen requests that a Federal Government agency takes an action.

Senator BURNS. But the process was in progress. Let it be completed.

Ms. MCGINTY. The requesting company in this instance asked that that action cease and desist because they wanted to pursue an alternative course.

Senator BURNS. They are just as wrong as you are.

Ms. MCGINTY. Well, the action was undertaken at their instance.

Senator BURNS. Well, but I am saying that they are just as guilty as you are.

Senator BOND. Thank you very much, Senator Burns.

Senator BURNS. I will go upstairs and jump on Babbitt. He is upstairs. I will vote to pull all of your funds on this.

Senator LAUTENBERG. Mr. Chairman, may I?

Senator BOND. Senator Lautenberg.

Senator BURNS. I have no use for it.

Senator LAUTENBERG. Thank you very much, Mr. Chairman.

Ms. McGinty, when did you write the NEPA law?

Ms. MCGINTY. Senator, it was written in 1969, and signed into law by President Nixon.

Senator LAUTENBERG. Oh, so you did not write it.

Ms. MCGINTY. No; I did not, sir.

Senator LAUTENBERG. So, are you here defending what you think is a legitimate process?

Ms. MCGINTY. Senator, I have come to see it as invaluable.

Senator LAUTENBERG. I do not think you are so brazen. I think you have got to do it. You are the lawyer in this case. You are defending an agency in which you have deep belief. So stick with it.

Now, I would like to know how many of those who made decisions here—perhaps you can help me—make decisions about defense who have never seen war. I would like to know how many scientists have been up in the ozone hole who are making decisions here? What the devil do they know about ozone holes? They have not been there.

Ms. McGinty, stick to your guns. You have an important function to maintain there. We have agencies all over the place who are involved in environmental decisions. And Lord knows that we will save more lives and make lives more pleasant for millions of people if you and the others who are involved in environmental questions here can solve the problems that we have.

I do not want my grandchildren drinking toxic or contaminated water or breathing toxic air. Neither do I want my aunt or my uncle, elderly people, breathing toxic air. You have got to do what you have to do. You are on the side of right. You are saving lives, and you have got to stick with it.

Do you know the TRI process and the TRI program?

Ms. MCGINTY. Yes; I do.

Senator LAUTENBERG. You know I have some involvement with it. Are you aware that the toxic release inventory, on a voluntary basis, has saved, in the period from 1989 to present day or last year, 44 percent—reduced by 44 percent—toxic emissions in the air. It is a voluntary program.

I can tell you in my State, which Senator Mikulski acknowledged, we have very serious environmental problems, because we are a crowded State. We have a proud industrial past. Unfortunately, that past has caught up with us in the wrong way, and as a consequence we are flooded with Superfund sites and toxic air problems. Our neighbors to the west are very generous. They deposit their contaminants all over our soil with no charge, by the way, I might add. The fact of the matter is that companies in New Jersey sprung to the idea of participating in this voluntary program.

The success was enormous. Some companies save 90 percent—reduced by 90 percent—the toxic emissions that they were putting previously into the air, and many of them found that they had a recoverable asset going out of those smokestacks, and they brought them back into the shop and used them to make paints and other solvents and things of that nature. And they found out not only did they contribute to the neighborhood and the community, but they also contributed to their bottom line. So then, why should not an XL program work, if we can enlist the support of the private sector?

Ms. MCGINTY. Senator, I have every confidence that it will, and, in fact, it has. There are three agreements that have been reached under project XL already, and some of them are huge. One of them in particular is the difference between the economic cutting edge competitiveness of an industry and falling behind, and that is the one with Intel. The Intel Corp., as you know, is involved in the development of semiconductors. And with computer technology constantly changing, the competitiveness of that industry depends on being able to change their production processes very rapidly. They can do that under XL. If it were not for XL, they would face a very serious competitiveness challenge.

Now, the chairman does point to some of the challenges we are having in broadening the program, but I really do believe that is because it is a very ambitious program, and it is going to be tough.

Senator LAUTENBERG. I want to say, for the chairman of this subcommittee, who has many times mentioned his interest in securing a budget that balances and making certain that we reduce our expenses wherever we can, but Mr. Chairman, I have got to compliment you, because you have stuck with some of the programs that I know you had some questions about because you were persuaded by the evidence that these were decent programs, and I commend your objectivity even as you focus on the budget reductions that you obviously advocate.

Ms. McGinty, I close by just saying that I hope you continue doing what you do. I think you have to make the case a little more clearly. I think it does look redundant. We have EPA, and people are not quite sure in the outside world—I am not even sure if we on the inside world are certain about it, but what are the functions. But when you lay it out, and you say yes, there is defense, and yes, there is energy, and yes, there is agriculture, all these departments performing what I think are fundamentally excellent and required services. Can they do them cheaper? Perhaps. Can they do them better? Certainly. But I think coordination of all of these departments is essential, and I hope that CEQ can achieve the mark that it was originally designed for.

Thank you.

Ms. MCGINTY. Thank you.

Senator BOND. Thank you, Senator Lautenberg. I appreciate your kind comments. I believe that we must work toward a balanced budget. I think there is bipartisan agreement there. I happen to think, as I have stated on many occasions, that this subcommittee has taken more than its share of cuts. We have some very, very important priorities with costs that are continuing to escalate. The housing area is one that we will be discussing later.

Senator MIKULSKI. That is going to be a big balloon.
Senator BOND. Is that a big enchilada?
Senator MIKULSKI. The section 80 spiraling contracts.
Senator LAUTENBERG. I was stuck in traffic that day.
Senator BOND. We all may be stuck in traffic. [Laughter.]

SPENDING PRIORITIES

Senator BOND. But there are some difficult problems. I raised the question about the budget in the beginning because I am not sufficiently optimistic to think that we will get a 602(b) allocation which would accommodate all of the spending priorities the President recommended.

Ms. McGinty, I want to come back to project XL. I believe in the concept of project XL. I do have some problems with how it is being implemented, and I noted in your testimony you seemed to think that the problem was primarily with understanding by the other non-Federal Government agencies that they just did not get it as to how XL would work. And I note that when 3M withdrew from project XL, the Minnesota Pollution Control Agency said—we were all there, it was clearly stated—there were elements at EPA who had not weighed in, powerful elements. Intel, itself, you cited as one of the examples. The Governors affairs manager said there were too many EPA offices, too many levels of regulators, they were negotiating with people who were not making the decisions.

I wonder, are you listening to the people who are getting out of the program, the States and the private sector? Because frankly, there has not been a lot of progress, and there have been a lot more dropping out than are staying in the program. So there is a problem. Are you listening to the people?

Ms. MCGINTY. Yes; and I think fair enough, Mr. Chairman, in terms of pointing not only to those who might participate in the program not understanding the elements of it, but the agency itself trying on a new suit here, and one that does not necessarily fit exactly right the first time around. That is certainly involved here, too.

One of the things that we have seen in the program, again listening to participants, is that it is uneven. Some regions of EPA have taken this issue up and have implemented it much more smoothly than other regions. There seems to be some regions who kind of get the idea more quickly than others. So there are internal difficulties.

Senator BOND. Let me ask this, and I apologize that we are short on time, the global environmental management initiative received a draft report which said that both CSI and project XL suffered from a lack of clear ground rules, raising serious questions about the viability of the programs without fundamental statutory reforms. The President's Council, Presidential Congressional Commission on Risk Assessment and Risk Management, says EPA needs the legal authority to provide flexibility. The President's Council on Sustainable Development says that it needs a new regulatory system with greater flexibility and alternative compliance legislation. In the past we have raised this question. It has been the position of the administration we get the job done without new statutory authority.

It looks like the evidence is beginning to come in that there does need to be some statutory changes. Are you ready to support any such changes in alternative compliance legislation? Where do we stand on those issues?

Ms. MCGINTY. Well, we did feel, Mr. Chairman, that it was important to road test some of these issues, and that is what we have been doing over the last year.

I think we will get further evidence in as this work that I mentioned before continues, to try to elucidate, as you just pointed to, what are the ground rules. Frankly, it has been a little surprising to us that in trying to eliminate some of the rules, to allow people to choose their own way and get there as efficiently as they can, they have come back and said but we need at least a few more ground rules.

So we do have some experience now, and I would look forward to working with you and your staff and talking about that and see what we might do now with this information that we have in hand.

SMALL BUSINESS REGULATORY ENFORCEMENT

Senator BOND. Would you please let us know about the people who want more ground rules? I had not heard that. I would be interested to see that. But I really think we have gotten to the point where we need legislation, Amoco, Yorktown, and others.

Let me ask you about the ozone fine particles. You know that this has raised a great deal of concern. Senator Chafee, chairman of the EPW Committee has even suggested EPA should delay the fine particle standard. We passed a little measure last year that I played a role in called the Small Business Regulatory Enforcement Fairness Act, which requires the participation by small business in the process, plus other standards to take care of the concerns of small business.

No. 1, I am concerned about the process. Have you looked at, from the administration's standpoint, whether EPA's rule is subject to the Small Business Regulatory Enforcement Fairness Act? And No. 2, do you see a need for further scientific evidence on the benefits of the proposed standards? Everybody recognizes there is a scientific concern about the health risks. The second part of the question is from a substantive standpoint and an impact standpoint, do you see need for the delay that Senator Chafee has suggested?

Ms. MCGINTY. Mr. Chairman, let me step back for a second and describe CEQ's role in the context of this pending rulemaking. What we have worked to do and will continue now as the comment period is still continuing but will come to a close in the middle-end of March, is to work with the other offices in the White House, and particularly OMB and the National Economic Council, to ensure that as comments are coming in that they are made available in real time to the other agencies that have an interest in this and that have technical expertise themselves to be able to review and comment.

The second thing we will do is to provide a forum, whether it is State or local governments or various interested parties, to be able to come in and comment personally on the proposed rules.

Separate and aside from that process, we will ensure that there is adequate time for review of the rule before it goes final. But at

this point in time, while we are still in the comment period, I do not have a separate substantive judgment. I can assure the committee that I will be engaged as those reviews and judgments come in, but the rule is still pending and the comment period is still open on it. And so we are awaiting those comments coming in.

Senator BOND. I did not catch your answer to the question about small business.

Ms. MCGINTY. On the small business SBREFA, in terms of the applicability of SBREFA to a particular standard—first of all, let me say that SBREFA is a statute the administration wholeheartedly supports, and we very much welcome your willingness in letting us work with you last year and your staff working with us to put that together. So we are very much supportive of it.

In terms of the applicability of the statute to a particular standard, to a particular proposed standard or rule, that is a determination that is economically involved, legally and technically involved. It would be on this issue as on other issues that are a matter of such technical expertise, I would not normally form a separate opinion of it. I would look to the agency that has expertise in that area. In this instance it would be a combination of EPA and the office in the White House that is charged specifically with these kinds of matters, which is the Office of Information and Regulatory Affairs. And I know that they have reviewed that question, and I know that they have come up with a determination about it. I have not undertaken to make a separate determination of it myself.

Senator BOND. Senator Mikulski.

Senator MIKULSKI. Ms. McGinty, again, there are many topics that we could cover in our conversation with you. But I think what is arising here is first of all there is a lack of clarity about what CEQ does. This is no-fault with you. Please do not misunderstand me. And, therefore, what are the models? Are you the EPA czar? Are you the equivalent of McCaffrey on the environment? Are you supposed to be the EPA czar? That is a different function.

Are you to be more like the Office of Science and Technology Policy, which coordinates on certain topics like ozone or science education, and an advisor to the President, but you are not the science czar for America?

I think we need a clarification on this, because I think it is more the latter model. You were not meant to be the environmental czar, therefore, not be held accountable for every environmental perceived screw-up, whether it is Interior or EPA or agencies within Interior or Agriculture or whatever.

The second point here is that I recall when I first chaired the subcommittee, all the work with CEQ was spent producing this report, and often they were late, and that is what they did. That is all they did. And more often than not, they did not do it that well or in a timely fashion. And that is when there began doubts on what the function of CEQ was.

Now, I believe your predecessor under Mr. Bush laid new groundwork and things began to move more smoothly, and now this is what you are doing. I think as we move forward here we need, and I think it is appropriate, that you articulate what your role is.

If we look at the models, first of all we love czar. We think that somehow or another that is going to accomplish it. If czars worked so well we would not have had revolutions. [Laughter.]

Ms. MCGINTY. Senator, in terms of those models, the more apt one, and a very apt one, is the Office of Science and Technology Policy. The role is to coordinate the various agencies, and every agency has some environmental mandate or mission.

To take the Superfund Program, for example, I do not implement it. I do not enforce specific remedies at specific sites. However, I have to be concerned with the fact that we have got a Department of Energy and a Department of Defense that are themselves responsible for Superfund cleanups.

Senator MIKULSKI. But Dr. Gibbons, and we will talk to Dr. Gibbons, neither proposes new legislation or new regulatory frameworks, but essentially just more efficiently coordinates the resources, particularly topical when they go across agency lines.

Ms. MCGINTY. Yes; exactly. Exactly right. That is exactly the model.

On Superfund, again, the reforms that we have seen to take land use into account when planning a cleanup, that is the kind of thing that comes out of a process that CEQ chairs, and we hear from a DOE and a DOD to share their experience under the Superfund Program, and we get insights. So we have ideas as to how to reform the programs.

Senator MIKULSKI. Well, I think this is what we need to talk about in terms of your funding and expectations of you, and not hold you accountable for every faulty decision or perceived faulty decision in these particular areas. And I am afraid this is where we are drifting to, because as I understand, the Office of Science and Technology proposed no new legislation, no new regulatory framework, it did not solve the science problems. Dr. Gibbons is not out there finding a cure for cancer, for prostate cancer, but essentially advising the President and the Vice President on how we should organize our resources on life sciences, am I right?

Ms. MCGINTY. Exactly right, yes. That is the model.

Senator MIKULSKI. Thank you, Mr. Chairman.

Senator BOND. Thank you, Senator Mikulski.

Senator Bennett.

Senator BENNETT. Thank you, Mr. Chairman. I appreciate your willingness to let me visit a subcommittee that I very much enjoyed. I am sorry I had to leave because of other priorities.

Senator BOND. Well, we miss you, and we are delighted to have you as a member emeritus.

Senator BENNETT. All right.

Ms. McGinty, you and I have had some exchanges, both in hearings and in writing, and I appreciate the chairman's willingness to let me use this forum to pursue some of those exchanges.

It will come as no surprise to you that I want to talk about the monument in southern Utah, and to lay the predicate again for this record. The decision to create this monument was made without any consultation whatsoever with any elected official in the State of Utah. The Governor was kept out of any considerations. Senator Hatch and I were both kept out of any consideration. Congressman Orton, in whose district it was, was kept out.

I asked you in a hearing before the Energy and Natural Resources Committee if you would provide us, and provide me specifically, with all of the written background relating to this decision, because, as I rehearsed there, while we had the conversations prior to the designation of the monument, people from your office kept insisting this was being handled by the Interior Department. My conversations with the Secretary and people in the Interior Department show they insist that this was being handled by the White House and no one would admit to having been the lead agency or the lead staff group to advise the President.

So I asked you to give me all of the background that was used in the decisionmaking process. And on Valentines Day I sent you a letter that was not necessarily a valentine saying that almost 6 months had gone by and I had heard nothing. And I received back from Shelly Fidler, Chief of Staff, a letter saying you were traveling but they wanted to be responsive immediately and apologizing for the delay, and this is what I got as the substance of what went into the President's decision to create 1.7 million acres of a national monument in Utah without any consultation from any elected official in Utah:

A manual entitled "The Ecosystem Approach, Healthy Ecosystems and Sustainable Economies," dated June 1995; a legal description of the Antiquities Act and what you could do under it; a speech given by Ray Clark, Council of Economic Quality of the United States, in Quebec City, dated June 16, 1994; and then written answers to questions from other Members of Congress—James Hansen, that was useful, he is from Utah; here is a letter signed by Bruce Babbitt written to Carol Browner dated May 29, 1996; and questions for the record for Ms. McGinty from Senator Thomas and other members of the committee, and your response to Senator Thomas.

Frankly, I do not consider that responsive to my letter, and I wanted to come here and raise this with you.

Second, I will tell you if you do not know that a number of publications in Utah have submitted freedom of information requests for the same information and have been denied. They are anxious about that. They are pursuing their rights under the Freedom of Information Act, and feel that they have a right to more information about the process that was followed in the creation of this.

Further, people in the press—and we all learn what we learn about the press, have reported names of people who were involved, who were consulted, who were part of the decisionmaking process, including people from the Southern Utah Wilderness Alliance and other environmental groups, the Sierra Club, et cetera, who were allowed access to information that was denied elected officials. That is, they were part of the process of drawing maps and making decisions concerning land use in this monument.

I am not going to attack anybody. I am not going to send somebody to break their knees or knock out their windshields or scratch up their cars or do anything. I simply want to know to whom the President turned, or you as the President's agent, to whom did you turn for information on this?

This is a very, very significant issue. It affects a very large number of my constituents. It is a major environmental effort on behalf

of all of the people of the United States, creating one of the largest, if not the largest, national monument in the country, and we have no official idea who did it. And yet we are faced with a 3-year management plan to try, in the words of Leon Panetta when he called me to tell me about it, to pick up the pieces after the fact. It will be much easier for us to pick up the pieces after the fact if we have some understanding of the pattern, the thoughts, the motivations, that went into the creation of this thing in this particular fashion.

So I am here to ask you once again if you will review my letter of February 14 where I get very specific in the things that I ask for, and do your best to be responsive to those specific requests, and however well-meaning your staff was to try to get you off the hook and get me something in a hurry, I am not really interested in copies of speeches that were 2 years old prior to the decision the President made.

Ms. MCGINTY. Thank you, Senator. There are three or four points I think you made. I will do my best to respond to them.

First, in terms of the materials that were sent to you after your February 14 letter, they were the exact and complete set of materials that we sent to the committee immediately after the hearing, which was September 26, including in the hearing record, because your request was part of the hearing record to have those materials submitted, we submitted that stack of papers that is specific to the monument that you pointed to. That outlines the analysis. That is the complete analysis that was done supporting the designation of the monument. I tried to deliver that immediately. It was part of the hearing record.

We were told at that time that the committee separately would make it available to each member. I suppose that did not happen, and so what my staff did 1 week ago was to resubmit those materials to your office directly. And so what you have there is both the materials that were directly responsive to your question, but just in order to not leave anything out you have the entire set of materials that were offered to close the hearing record.

Senator BENNETT. If I may, I do not consider this responsive to my question. I can understand why the committee did not circulate all of the materials to me.

I want to know the specific analysis that went into this monument. I do not want general statements about the Antiquities Act, I do not want general statements about ecosystems, this was a very significant act taken by the President of the United States deliberately keeping a number of people in the dark with respect to what was going on. It obviously did not burst full blown from the head of Zeus. There was obviously a great deal of staff work that went into it.

I want to know the names of the people who participated in those sessions, and I want to see the memos they created. And as I said to you, and will repeat again, as far as the press is concerned, they are now quoting people outside of the administration as saying they were part of the process, and I want either confirmation or denial of that, and the only way I can get that is to get a list of the names of the people who really were involved.

Again, I am not going to put out a contract on somebody who was involved. Nobody has anything to fear. I just want to know the

process that was followed and the people that were involved. This is clearly not responsive to that request.

Ms. MCGINTY. Fair enough. Let me mention two things, if I might. One is the materials that you have there are not just generalities about the Antiquities Act. That package of materials includes the complete itemization of all of the archeological, geological, and cultural factors that were identified in the monument area, and as you know, that is required to be identified pursuant to the Antiquities Act. So the materials are very specific in terms of where those archeological sites are and what they are.

Senator BENNETT. I do not disagree, but they are very incomplete.

I am sorry I have taken so much time, Mr. Chairman.

Senator BOND. Senator, I apologize. We have two very important panels to follow. Let me just say that I think that Senator Bennett has made a reasonable request. To the extent that you and CEQ have knowledge and participated, I will be interested personally in reviewing your response to his question to, the extent that CEQ was there, who did what, and when. I am sure that Senator Bennett will enjoy reading about the Antiquities Act. I believe he wants to know who did what, and that will be of interest to us.

Senator Mikulski, any further questions to Ms. McGinty?

ADDITIONAL COMMITTEE QUESTIONS

Senator MIKULSKI. No; and I will look forward to hearing the followup on this conversation, and particularly the FEMA part, which I think offers a great opportunity for saving lives and saving communities.

Ms. MCGINTY. Yes; thank you.

Senator BOND. Thank you very much.

Ms. MCGINTY. Thank you, Mr. Chairman.

[The following questions were not asked at the hearing, but were submitted to the Council for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR BOND

*Question.* NEPA Effectiveness Study. Recently CEQ released its "NEPA Effectiveness Study." CEQ found that while the NEPA process overall is sound, at times its implementation fell short of goals. For example, "interagency coordination is hampered because agencies often have different timetables, requirements, and modes of public participation;" and "citizens sometimes feel frustrated that they are being treated as adversaries rather than welcome participants in the NEPA process."

While deficiencies with the NEPA process were identified, the report contains no specific recommendations for change. Why?

Answer. On the occasion of the 25th anniversary of the National Environmental Policy Act (NEPA), CEQ initiated a study to examine the effectiveness of NEPA and prospects for improvements in the NEPA process. In January 1997, CEQ released the findings of this study, "The National Environmental Policy Act: A Study of its Effectiveness After 25 Years" (hereinafter referred to as the NEPA Effectiveness Study).

To summarize briefly the findings of the Study; first, NEPA works. Agencies must now take a "hard look" at the environmental consequences of proposed actions before they make a final decision. They must consult with other federal agencies and tell the public what they are proposing to do, invite public views on their proposals, and respond to those views. NEPA also calls for agencies to tell state, local, and tribal governments of their plans, and provides agencies with a mechanism to coordinate overlapping jurisdictional responsibilities. In large part due to NEPA, federal agencies today are better informed about the consequences of their actions on communities and are more likely to take community views into consideration. Used well, agency implementation of NEPA reduces conflict and saves scarce resources.

Despite these successes, however, as you noted, NEPA's implementation at times has fallen short of its goals. In some cases, the NEPA process takes too long and costs too much. Agencies produce documents that are overly long and sometimes too technical for most people to use. Training for agency officials, particularly senior officials, is at times inadequate. Some agencies confuse the purpose of NEPA, acting as if the detailed statement called for in the statute is an end in itself, rather than a tool to enhance and improve decision making.

The purpose of the NEPA Effectiveness Study was not to provide a detailed blueprint for change, but to give an overall assessment of the statute and to provide a starting point for our reinvention efforts. Instead detailed recommendations will be forthcoming as part of our NEPA Reinvention effort.

CEQ believes that many of the deficiencies identified in the application of NEPA can be corrected through improvements in agency's NEPA processes. The first phase of the our Reinvention effort focuses on the grazing, timber, and oil and gas sectors to determine what types of process changes can be effected to increase the efficiency of NEPA. If we find barriers that require regulatory change, we will pursue such changes.

*Question.* Will it be up to the individual agencies to devise improvements to the way they carry out the NEPA process? What guidance will CEQ provide to the agencies to streamline and improve the process, and what exactly will CEQ's role be in improving NEPA's effectiveness?

Answer. Inasmuch as each agency has different missions and different planning processes, it is unlikely that a ''one-size-fits-all'' approach from CEQ would be productive. It is more likely to be successful if agencies understand the opportunities for improvement and make those improvements within the context of their own mission.

Agencies are currently responsible for their NEPA compliance and their management of the NEPA process. Improvements will necessarily come from within. Reforms can be institutionalized in each agency's NEPA procedures, and CEQ is encouraging all the agencies to review their procedures with an eye toward streamlining. CEQ will consult with each agency as they review their NEPA procedures.

*Question.* Two years ago, you testified that one of your priorities was reinvention of the NEPA process, including cutting processing time and consultation time. What specific improvements—such as the numbers of duplicative or inconsistent regulations which have been eliminated—have been made in the last two years?

Answer. One of the most important steps in this regard was the elimination of duplication between the processes for complying with NEPA and the Endangered Species Act for Habitat Conservation Plans (HCP's). These are plans that permit landowners to conduct certain activities over a long period of time, with the certainty and stability of a site-specific tailored agreement. Previously, applicants were going through two separate processes to comply with the two statutes. This resulted in duplicative analyses and public hearings for the same actions. This duplication has now been eliminated, significantly reducing permit processing time for private applicants. In fact, even the most complex HCP can now be completed in under ten months.

CEQ has also expended considerable effort in working with the Food and Drug Administration (FDA) over the past two years to streamline their NEPA process and reduce unnecessary submissions. According to the FDA, the changes being made as a result of that effort will result in an annual cost savings to industry of approximately $15.7 million, as well as improve FDA efficiency by eliminating unnecessary agency review costs of approximate $1 million. Equally important is that the regulations do not compromise the FDA's efforts to promote NEPA's policies and goals for better, more informed decision making.

Similarly, CEQ worked with the Department of Energy (DOE) as they developed proposed revisions to their NEPA regulations. DOE's final rule includes several streamlining features such as: establishing new categorical exclusions; expanding existing categorical exclusions; and eliminating the preparation of extensive documentation prior to preparation of an environmental impact statement (EIS). In consultation with CEQ, DOE simplified public notification requirements and streamlined the requirements for the content of Findings of No Significant Impact. These changes, and others like them, focus available resources on significant environmental issues, and reduce costs and staff time while ensuring the environmental assessment process is useful to decisionmakers and the public.

CEQ is currently working with the Air Force to find streamlining opportunities. One clear opportunity to save time and money is to eliminate the necessity to have public hearings instead of informal public meetings. We have pointed out to the Air Force that public hearings are more expensive and not required by CEQ regulations. We are also reviewing additional categorical exclusions which will reduce the

amount of documentation associated with Air Force NEPA compliance. We are also jointly exploring opportunities for integrating analytical requirements, eliminating duplication of effort. We expect that these revised regulations will be final this summer.

As you may recall, CEQ and the Federal Highway Administration (FHWA) cosponsored a conference in 1995 which focused on methods to streamline the NEPA process used in the development of highway projects. As a result of this very productive conference, the Department of Transportation (DOT) is developing a proposed rulemaking that will link NEPA and its principles to DOT's decision making process. The proposed rules will affect the Federal Highway Administration (FHWA), the Federal Railroad Administration (FRA), the Federal Transit Administration (FTA) and the Coast Guard. The objective of these DOT agencies is to develop a single NEPA regulation that will reduce paperwork, streamline and expedite transportation planning and decision making, and lead to one overall public interest decision that integrates social, economic and environmental effects and considerations, including economic development, health and environmental protection and community and neighborhood sustainability.

CEQ is also working with other agencies as they amend their NEPA procedures, including the Department of Housing and Urban Development and the U.S. Army. I want to reiterate that CEQ will continue to take advantage of these reinvention opportunities but we hope to institute even more sweeping changes through our NEPA Reinvention initiative.

*Question*. What specifically do you anticipate to be accomplished this year through the new NEPA reinvention initiative?

Answer. We have already begun a process to examine current NEPA practices with regard to grazing, timber and oil and gas. Federal agencies that have responsibilities for NEPA issues in these three sectors are working cooperatively to suggest areas where improvements can be made.

As you may know, the lead CEQ staff member on NEPA Reinvention is currently on maternity leave. As I mentioned to your staff, CEQ has brought on Robert Cunningham to lead our NEPA Reinvention Team. We also expect Ms. Mesa to return to resume her work after her leave is completed.

The University of Wyoming will host a conference this week to help us identify additional activities we can cooperatively engage in to broaden the dialogue and to help us make additional progress. The University of Montana, as well, has offered to help us contact stakeholders and to use the University as a resource in our project. The Western Governors' Association and the Western States' Foundation, as well, have expressed interest in working with us to accomplish NEPA Reinvention.

In addition, we are shortly to begin meetings with stakeholders to review the product of the initial interagency discussions and to solicit stakeholder input. Within several months, we also hope to begin discussions with the leadership of the federal agencies with responsibilities in our three sectors to educate them about the opportunities for reform that we have identified.

Needless to say we will bring the products of all of these discussions with interested Senators and House Members and their staffs.

By the end of this fiscal year we expect to have specific recommendations for some significant changes to current NEPA practices in the three sectors we have identified as our targets of opportunity—grazing, timber and oil and gas. The kind of improvements we would consider a success would reduce the time necessary to make decisions; result in more cooperation between federal agencies; reduce costs; make processes more transparent for the user communities; improve public participation; as well as other efficiency improvements that are identified through the examination of options.

*Question*. FEMA has told my staff of their frustration of meeting NEPA requirements in projects resulting from Presidentially-declared disasters. Staff who administer disaster programs often have limited expertise or time to evaluate effectively and document environmental considerations. NEPA is often seen as significantly slowing the funding and construction of these very critical repair, renovation, rebuilding and mitigation projects following disasters. FEMA tells my staff that the most important support CEQ can provide to FEMA is guidance on measures FEMA can undertake to expedite the NEPA process. What are you doing to help FEMA in this regard, and will you report back to the Subcommittee on progress made?

Answer. FEMA recently consulted with CEQ and we provided guidance to clarify that a project that has already been categorically excluded from NEPA documentation under FEMA's NEPA procedures can proceed without further documentation. We are consulting with FEMA regarding procedures related to several particular projects, including the Rodeo Channel Stabilization in Hesperia, California, the Rolling Hills storm drain and slope restoration in Yorba Linda, California, and certain

projects in Hawaii. In addition, we are reviewing FEMA's NEPA program related to disasters generally, so as to identify possible opportunities for streamlining. We will be happy to report back to the Subcommittee on our progress later this spring.

## DEPARTMENT OF THE TREASURY

### COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS

**STATEMENTS OF:**

**JOHN H. HAWKE, JR., UNDER SECRETARY OF TREASURY FOR DOMESTIC AFFAIRS**
**KIRSTEN MOY, DIRECTOR**

#### OPENING REMARKS

Senator BOND. The second panel consists of Mr. John Hawke, the Under Secretary for Domestic Finance with the Department of Treasury; and Ms. Kirsten Moy, Director, Community Development Financial Institutions Fund Program. The administration's budget request for CDFI asks for an increase of $75 million, from the $50 million for fiscal year 1997 to $125 million to fiscal year 1998, and the President has indicated the intent to include increases for a 5-year total to $1 billion.

This fund was established in the Community Development Regulatory Improvement Act in 1994, and to provide equity investment grants and loans, and the purpose is to enhance the capacity of these institutions to finance economic development housing and community development.

I am concerned about the amount of funding in the CDFI request as we have to prioritize and deal with the other competing needs I am also concerned that CDFI does not have much of a track record. I need to understand to what degree leverage investment is being drained from other activities serving distressed communities, and how and whether CDFI is discouraging traditional financial institutions from opening branches and lending in distressed communities.

I look forward to hearing your testimony.

Mr. Hawke, I guess if you would begin.

#### STATEMENT OF JOHN H. HAWKE, JR.

Mr. HAWKE. Mr. Chairman, thank you very much for affording me the opportunity to make a brief statement in support of the community development financial institutions fund. CDFI has been a high priority of the President since the time he took office. It is a program with great potential for bringing the residents of our inner cities into the economic mainstream, an effort that I believe is vitally important to all of us.

The fund's aim is to expand access to credit and financial services in poor urban, native American and rural communities, areas in which one of the biggest obstacles to economic development is a lack of access to private sector capital. Access to financial institutions is fundamental to the efforts of residents of these economically distressed areas to lift themselves out of poverty.

When CDFI was assigned to the Treasury Department, it was established as an independent office reporting to the Under Secretary for Domestic Finance. In October 1965, Kirsten Moy was brought on board as Director of the fund.

She brought to the fund a wealth of experience from her work as senior vice president of the real estate subsidiary of the Equitable Life Assurance Society of the United States, and portfolio manager of Equitable's Community Mortgage Fund, a pension fund vehicle for investments in affordable housing and economic development. I believe that everyone who has observed the great skill that she has brought to bear on this task would agree that we are extremely fortunate to have her in this position.

In January 1996, CDFI received 268 applications for CDFI awards, with requests for funding 10 times the amount available. After a rigorous review by the fund, 32 CDFI's were selected to receive nearly $37 million in financial and technical assistance. The CDFI Fund also received 50 applications under the Bank Enterprise Award Program, and 38 banks and thrifts were selected to receive bank enterprise awards.

Last month, the President announced the winners of the Presidential Award for Excellence in Microenterprise Development to highlight the accomplishment of entrepreneurs in this area. The fund has effectively promoted partnerships between community-based financial institutions, banks, and other private sector sources, leveraging scarce Federal resources to attract private dollars into credit-starved communities. That, in turn, fosters cooperation and synergy in efforts to revive economically distressed areas.

For example, Senator Bond, in your State, Douglass Bankcorp, the oldest African-American owned bank west of the Mississippi is receiving $1.9 million in equity and technical assistance from the fund to support its expansion to serve Kansas City. In partnership with Kansas City Neighborhood Alliance, they are developing a comprehensive plan to promote affordable housing and small business development to foster market activity in low-income neighborhoods.

In addition, Senator Mikulski, in Maryland the Bank Enterprise Award Program helped trigger a $10 million investment by NationsBank in the employment opportunities fund, which invests in small businesses located in or employing residents of the Baltimore empowerment zone.

In this era of scarce budgetary resources, we must choose our priorities carefully and focus on those that have long-term payoffs for our economy and our society. The fund is a top priority of the President precisely for that reason. It uses a very modest amount of Federal funding as a base for attracting private capital, and its payoff is in the long-term health of our national economy by helping break the cycle of poverty, make our Nation more productive, and fostering higher economic growth.

We have been and continue to work diligently to make the CDFI and the BEA programs a success.

PREPARED STATEMENT

Mr. Chairman, I appreciate this opportunity to speak to you, and Mrs. Moy will now discuss the program in greater detail.

[The statement follows:]

PREPARED STATEMENT OF JOHN D. HAWKE, JR.

Mr. Chairman, distinguished members of this Subcommittee, I thank you for the opportunity to testify this morning on the President's fiscal year 1998 budget request for the Community Development Financial Institutions Fund.

CDFI has been a high priority of the President since taking office. It is a program with great potential for bringing the residents of our inner cities into the economic mainstream, an effort that I believe is vitally important to all of us—no matter where we live or what our incomes may be.

The Fund's aim is to expand access to credit and financial services in poor urban, rural and Native American communities, areas in which one of the biggest obstacles to economic development is a lack of access to private sector capital. Access to financial institutions is fundamental to the efforts of residents of these economically distressed areas to lift themselves out of poverty.

When CDFI was assigned to the Treasury Department, it was established as an independent office reporting to the Under Secretary for Domestic Finance. In October 1995, Kirsten Moy was brought on board as Director of the Fund. She brought to the Fund a wealth of experience from her work as Senior Vice President of the real estate subsidiary of the Equitable Life Assurance Society of the United States and Portfolio Manager of Equitable's Community Mortgage Fund, a pension fund vehicle for investments in affordable housing and economic development. I believe that everyone who has observed the great skill she has brought to bear on this task would agree that we are extremely fortunate to have her in this position.

Since it began operating in October 1995, the Fund has already made a significant contribution to increasing access to private sector capital, by catalyzing interest in this program. In January of 1996, CDFI received 268 applications for CDFI awards, with requests for funding ten times the amount available. After a rigorous review by the Fund, 32 CDFI's were selected to receive nearly $37 million in financial and technical assistance. CDFI also received 50 applications under the Bank Enterprise Award program, and 38 banks and thrifts were selected to receive Bank Enterprise Awards. Last month, the President announced the winners of the Presidential Awards for Excellence in Microenterprise Development to highlight the accomplishments of entrepreneurs in this area.

The Fund has effectively promoted partnerships between community based financial institutions, banks and other private sector sources, leveraging scarce Federal resources to attract private dollars into credit starved communities. That in turn, fosters cooperation and synergy in efforts to revive economically distressed areas. For example, Douglass Bancorp, the oldest African-American owned bank west of the Mississippi, is receiving an investment from the Fund to support its expansion to serve Kansas City, Missouri. In partnership with Kansas City Neighborhood Alliance, they are developing a comprehensive plan to promote affordable housing and small business development to foster market activity in low income neighborhoods. In addition, the Bank Enterprise Award program helped trigger a $10 million investment by NationsBank in the Employment Opportunities Fund, which invests in small businesses located in, or employing residents of the Baltimore Empowerment Zone.

In this era of scarce budgetary resources, we must choose our priorities carefully, and focus on those that have long term payoffs for our economy and our society. The Fund is a top priority of the President precisely for that reason: It uses a very modest amount of Federal funding as a base for attracting private capital, and its payoff is in the long-term health of our national economy, by helping break the cycle of poverty, making our nation more productive and fostering higher economic growth. We have been and continue to work diligently to make the CDFI and the BEA programs a success.

Mr. Chairman, members of the Subcommittee, I appreciate this opportunity to speak to you today. Ms. Moy will now discuss the program in greater detail.

STATEMENT OF KIRSTEN MOY

Senator BOND. Ms. Moy.

Ms. MOY. Chairman Bond, Senator Mikulski, distinguished members of the subcommittee, this is my first opportunity to testify before you, and I appreciate it very much.

The CDFI fund, as you mentioned, was authorized by the Riegle Community Development and Regulatory Improvement Act of

1994, and its purpose was to address the critical problems of capital access in urban, rural, and native American communities.

To this committee, the problems of access to capital are surely no stranger. Access to capital is an essential ingredient for creating and retaining jobs, developing affordable housing, revitalizing neighborhoods, and building local economies.

The fund runs two programs. The first of these, the CDFI Program, stimulates the creation and expansion of a diverse set of private community-based for-profit and not-for-profit financial institutions. These CDFI's, as they are known, complement the role of traditional financial institutions by filling market niches which such institutions are not well positioned to serve.

The CDFI's themselves include a broad range of institutions. They include community development banks, community development credit unions, loan funds, microenterprise funds, community development venture capital groups, and these CDFI's provide a wide range of financial products and services to distressed urban and rural communities and underserved populations. They do not only housing or consumer loans, but commercial loans, loans for small business, loans for community facilities, and many other things.

The Bank Enterprise Awards Program, which is designed to work hand-in-hand with the CDFI Program, recognizes the key role that traditional financial institutions, banks, and thrifts, have played in community development lending. They complement the CDFI Program by strongly encouraging these institutions to support CDFI's, and they also incentivize increased lending in distressed communities by these organizations.

Of the institutions recognized in the first round of the Bank Enterprise Award Program nearly two-thirds supported CDFI's, with a total of nearly $66 million in support. For many of these organizations, it was their first effort to support a community development financial institution.

The Treasury Department, we believe, is uniquely situated to carry out the CDFI initiative. As the executive branch's leading agency in setting financial institutions' policy, the Treasury Department is strongly committed to increasing access to capital and investment in distressed communities.

The Department does this through the efforts of the CDFI fund, but also through its commitment and the commitment of the Office of the Comptroller of the Currency, and the Office of Thrift Supervision, to a strong and effective Community Reinvestment Act.

The Treasury Department is also strong in its support of Federal tax policy for such efforts as the low income housing tax credit.

During the first year, as Under Secretary Hawke mentioned, we received and reviewed 268 applications, undertook a rigorous and comprehensive look at all of them, announced the selection of 32 CDFI's to receive approximately $37 million in awards, and announced the selection of 38 banks and thrifts to receive approximately $13 million in bank enterprise awards.

Just last month in January, President Clinton announced the award winners for the Presidential Awards for Excellence in Microenterprise Development, a nonmonetary award program implemented by the fund which is designed to recognize the best in the

business of microentrepreneurship, a growing phenomenon in the United States.

I would like to remind the committee that in the midst of all these activities, the fund, as a startup organization, also managed the challenge of developing almost from the ground up internal controls, financial management systems, monitoring and evaluation functions, and a host of other organizational development issues. These systems we feel are critical to ensure the effective use of scarce public resources.

Though the fund is young, its impact can already be seen. I believe that the fund has been proven particularly effective in six areas: Leveraging of private resources, forging linkages with the financial services industry, creating viable self-sustaining institutions that will not need to be assisted or subsidized forever, expanding access to the economic mainstream, restoring healthy marketing activity, and catalyzing new community development activity.

You have already heard Under Secretary Hawke talk about initiatives in Kansas City and in Baltimore to forge partnerships and restore healthy market activity. Let me mention a few more examples.

The fund's ability to leverage private sector funds in distressed communities is truly dramatic. The fund first of all requires, at a minimum, that every dollar awarded under the CDFI Program be matched by at least $1 of non-Federal moneys. But it does not stop there. In the near term over the next 2 to 3 years, the $37 million awarded to CDFI's will, in our conservative estimate, leverage three to four times the amount of the original awards.

Over the long term, the fund's investments are expected to support lending and investment in these communities of 10 to 20 times the amount awarded.

The CDFI fund is very focused on creating viable, self-sustaining institutions. The Vermont Community Loan Fund, for example, which is a relatively small organization at $2.5 million of assets, finances housing, small business, and community facilities.

Very importantly, the Vermont Community Loan Fund, through its good business practices and track record, has achieved notable success in attracting investments from a diverse array of private sector players, including individuals, religious institutions, foundations, and corporations. The fund's investment in Vermont will help the loan fund build on its record to expand its services to communities across the State.

The CDFI fund is also focused on catalyzing new activity, we seek to use our scarce resources to jump-start new initiatives, not permanently subsidize them. For example, the fund's investment of a $1 million loan in Tlingit-Haida Regional Housing in Alaska will begin home mortgage lending in Alaska's three urban areas. These will be among the first sources of mortgage loans that are available and affordable to lower-income Alaska Natives.

I see my time is up.

PREPARED STATEMENT

Senator BOND. Ms. Moy, we will be delighted to make your full statement a part of the record, and we apologize if we have run longer than we intended.

[The statement follows:]

PREPARED STATEMENT OF KIRSTEN S. MOY

Chairman Bond, Senator Mikulski, and distinguished members of the Subcommittee, I would like to thank you for the opportunity to testify this morning on the President's fiscal year 1998 budget request for the Community Development Financial Institutions (CDFI) Fund which is within the U.S. Department of the Treasury. The President's budget requests $1 billion over the course of the next five years for the CDFI Fund. In fiscal year 1998, the request proposes $125 million to support the Fund's initiatives.

The CDFI Fund, which was authorized by the Riegle Community Development and Regulatory Improvement Act of 1994, was created to address the critical problems of urban, rural and Native-American communities that lack access to capital. Access to capital is an essential ingredient for creating and retaining jobs, developing affordable housing, revitalizing neighborhoods, and building local economies. Over the past decade, much evidence has been presented that there are significant capital gaps in distressed communities. Given the unique character of the credit market in low-income communities, this market niche is often not recognized or well understood—making it difficult for conventional market players to meet the needs of this market without local partners. Thus, in many communities, needed financial products and services may be entirely lacking or may not be available or offered at prices that low-income people can afford.

The CDFI Fund represents a new direction for community development initiatives. It leverages limited public resources to invest in and build the capacity of private sector institutions to finance community development needs in distressed communities. The Fund's efforts are designed to help turn dysfunctional markets in distressed communities into well functioning local economies—thereby stemming the tide of disinvestment and creating economic opportunity for residents. The Fund accomplishes its mission by working with community based financial institutions and conventional banks and thrifts. The partnerships formed by these players will play a key role in helping to restore the functioning of distressed markets, enhance capital access for these communities, and enable them to join the economic mainstream. The Fund's investments are targeted to organizations that emphasize market discipline and performance as a strategy for restoring markets.

The Treasury Department is uniquely situated to carry out this initiative. As the Executive Branch's lead agency in setting financial institutions policy, the Treasury Department is strongly committed to increasing access to capital and investment in distressed communities. The Department does this through the efforts of the CDFI Fund, its commitment and the commitment of the Office of the Comptroller of the Currency and Office of Thrift Supervision to a strong and effective Community Reinvestment Act, and Federal tax policy including strong support for the Low Income Housing Tax Credit. Nearly seventy-percent of the Fund's awardees under the CDFI and Bank Enterprise Award Programs are credit unions, banks, thrifts, or bank holding companies. The commitment of the Department to integrate distressed communities into the greater financial services industry and the economic mainstream is key to future viability of neglected and disinvested neighborhoods.

FIRST YEAR ACCOMPLISHMENTS

Calendar year 1996, the first full year of the Fund's operations, was a very exciting and significant year:

—In January, the Fund received 268 applications for the CDFI Program and more than 50 applications for the Bank Enterprise Award Program in response to its interim regulations and Notices of Funds Availability issued in October 1995.

—The Fund undertook a rigorous review process of the CDFI Program applicants including a thorough analysis of an applicant's financial and programmatic track record, financial strength and stability, management capacity, business development strategy, matching funds, and projected community development impact.

—Secretary Rubin announced the CDFI Fund's selection of 32 CDFI's to receive nearly $37 million in financial and technical assistance.

—Secretary Rubin announced the CDFI Fund's selection of 38 banks and thrifts to receive $13 million in Bank Enterprise Awards.

—In January 1997, President Clinton announced the award winners for the Presidential Awards for Excellence in Microenterprise Development, a non-monetary award program implemented by the Fund which is designed to recognize the best in the business of entrepreneurship.

—In the midst of these activities, the Fund also managed the challenges of starting up a new organization including developing financial systems, internal controls, monitoring and evaluation functions, and other organization development issues. As a new organization, the Fund has built many of its management systems virtually from the ground up, or has been in the process of converting transitional, temporary systems to permanent ones, and creating and refining needed control systems. These systems are critical to ensure effective use of scarce public resources.

NEED AND IMPACT

The capital needs of urban, rural and Native-American communities are indeed great—but very difficult to quantify. I believe that the dramatic response of the private sector to the initiatives of the Fund provide a clear illustration of the vast unmet capital needs. In its first funding round, the Fund received 268 applications for the CDFI Program from community based organizations in need of investment capital and technical assistance. The requests for funding exceeded $300 million—approximately 10 times the amount of resources initially made available for the first funding round. It should be noted that applicants that submitted requests represent only a portion of the universe of organizations that are likely to be eligible for the program and represent only those communities that are fortunate enough to have a community based financial institution. The Fund also received applications from over 50 banks and thrifts—an excellent start for a program relatively unknown among the banking industry.

Although the Fund is young, its impact can already be seen. The Fund has proven effective in leveraging resources, forging linkages with the financial services industry, creating viable self sustaining institutions, expanding access to the economic mainstream, restoring healthy market activity, and catalyzing new community development activity.

*Leveraging Private Resources*

The Fund's ability to leverage private sector funds into distressed communities is dramatic. The Fund requires, at a minimum, that every dollar awarded through the CDFI Program be matched by at least one dollar of non-Federal monies. In the near term—over the next two-to-three years—the $37 million in equity and debt capital awarded to CDFI's will conservatively leverage three-to-four times the original awards. Over the long term, the Fund's investments are expected to support lending and investment of 10-to-20 times the amount awarded.

Self-Help of North Carolina is a national leader in community development finance. Yesterday, the Fund executed a $3 million grant to Self-Help. Over the next five years, it is conservatively projected that the CDFI Fund's grant and matching funds will enable Self-Help to provide more than $100 million to finance affordable housing and small business loans over and above what they could have done without the Fund's assistance.

*Forging Linkages with the Financial Services Industry*

In a short period of time, the Fund has been successful in forging key partnerships between banks, thrifts and CDFI's through the Bank Enterprise Awards Program. The $13.1 million in Bank Enterprise Awards generated nearly $66 million in equity investments and other financial support to CDFI's. In addition, the program generated $60 million in direct lending and financial services in some of the nation's most distressed neighborhoods. For example, the Bank Enterprise Award Program helped catalyze a $10 million investment by NationsBank in the Employment Opportunities Fund which invests in small businesses located in or that employ residents of the Baltimore Empowerment Zone.

*Creating Viable Self-Sustaining Institutions*

The Fund is distinctive from many other Federal initiatives because it focuses on the development of viable, self-sustaining institutions to carry out the work of financing community development. The Vermont Community Loan Fund, a small organization that finances housing, small businesses and community facilities, has achieved notable success in attracting investments from a diverse array of individuals, religious institutions, foundations, and corporations. The Fund's investment

will help the Vermont loan fund build on its highly successful track record, expand its services to communities across the state, and provide new investment in Burlington's Old North End Enterprise Community where over thirty-percent of its residents live in poverty.

*Expanding Access to the Economic Mainstream*

The activities of the First American Credit Union illustrates how the Fund's resources will help bring under served communities into the economic mainstream. The credit union, which serves Native-American reservations throughout Arizona, New Mexico and Utah, provides basic financial services. These basic financial services include checking and savings accounts and consumer and home improvement loans—for people that otherwise would have no access to these services. The Fund's assistance will be used to expand lending and introduce ATM services to rural, sparsely-settled low-income communities.

*Restoring Healthy Market Activity*

Douglass Bancorporation, the oldest African-American owned bank west of the Mississippi, will receive an investment from the Fund to support its expansion to serve Kansas City, Missouri. Douglass, in partnership with the Kansas City Neighborhood Alliance, has developed a comprehensive plan to restore healthy market activity to low-income neighborhoods by promoting affordable housing and small business development.

*Catalyzing New Activity*

The Fund's philosophy is to use its scarce resources to catalyze and jump start new initiatives—rather than permanently subsidize them. For example, with the Fund's investment of a $1 million loan, Tlingit-Haida Regional Housing will begin home mortgage lending in Alaska's three urban areas. This will be among the first sources of mortgage loans that are affordable to low-income Alaska Natives in these markets.

SUMMARY OF FIRST FUNDING ROUNDS

The CDFI's selected to receive investment from the Fund represent a broad array of institutional types—both non-profit and for-profit—and provide a broad range of financial products and services including consumer loans, affordable housing loans and investments, small business development, and community facilities such as day care and health care facilities. The group of selected CDFI's serve communities in 46 states and the District of Columbia. Approximately half of these initiatives serve predominantly urban areas, 25-percent serve predominantly rural areas, and the balance serve a combination of both. Twenty-four of the 32 awardees serve an Empowerment Zone or Enterprise Community.

Through the Bank Enterprise Award Program, the Fund has made awards to 38 banks and thrifts located in 18 states and the District of Columbia that ranged in asset size from a small community bank of $21 million to a major money-center bank of $320 billion. The awardees include national banks, Federal savings banks or thrifts, state-chartered commercial banks, and one state chartered mutual saving bank.

THE PRESIDENT'S FISCAL YEAR 1998 BUDGET REQUEST

The President and Secretary Rubin strongly support the increased funding for the CDFI Fund. The $125 million requested for fiscal year 1998 is proposed to be allocated as follows: $80 million to be invested to support CDFI's; $40 million for the Bank Enterprise Awards Program; and $5 million for administrative related costs. Most of the $80 million to be used to support CDFI's will be invested directly in such institutions in the form of equity investment, loans, capital grants, and deposits. As part of its provision of assistance to CDFI's, the CDFI Fund intends to launch an important training initiative which will significantly enhance the capacity of private sector organizations to provide a full range of training and technical assistance services to CDFI's at affordable prices. In addition, a new secondary market initiative that the Fund will implement has the potential to leverage substantial new sources of private capital to support CDFI's.

CDFI PROJECTS

Senator BOND. I am going to turn to Senator Mikulski for questions after asking just one question to begin. We have heard all of these glowing reports. It is no surprise to me that everybody is

anxious and making applications for funds, but—maybe my staff is not up to date—I do not find any evidence that a single dollar of the $32 million in CDFI funds has actually been obligated or leveraged on a single project. Has anything happened yet on this?

Ms. MOY. Indeed it has, Senator. First of all, the money has all been obligated.

Senator BOND. I mean, has any money gone out to a project? Has it been spent?

Ms. MOY. Yes.

Senator BOND. Is something happening?

Ms. MOY. First of all, we run two programs, Senator, so that in the Bank Enterprise Award Program, which is a very important program, 75 percent of our moneys have actually been disbursed in that program to the participating banks, who have already completed their activities and who have already showed the impact of what they have done.

Under the CDFI Program, we have closed one transaction to Self-Help in North Carolina for $3 million. We have spent the first year putting the systems and procedures in place to make sure that as we disburse this money we can monitor the impact and trace the actual use of the moneys.

We now have in place our infrastructure to disburse these moneys. For instance, we have all the appropriate legal documents. In the next 4 to 6 weeks we expect to disburse all of the money that we can to organizations that are ready to receive them, which is approximately one-half of the organizations.

Senator BOND. So you are saying no money under CDFI has actually gone out.

Senator Mikulski.

Senator MIKULSKI. Mr. Hawke, good morning. Ms. Moy, first a cordial welcome to you from the committee.

I would like to just say, looking at your background, that we are very fortunate to have someone of such strong private sector experience managing the CDFI fund. I know that the whole issue of access to credit for low-income communities has been part of my life for more than 30 years, and yet, at the same time, I had enormous skepticism about creating the CDFI fund.

Just very quickly, when I was a young social worker in Baltimore I helped start a credit union in an African-American community. Of course, all they had was the opportunity to borrow money from, really, street-corner or store-front usury programs. Then, working as a city councilwoman and then a Congresswoman, I dealt with the red-lining provisions, and then came the famous Community Reinvestment Act.

When the CDFI fund was proposed, my question was, why do we need this? Why don't we just push the big banks to do community reinvestment, that was the big concern, rather than create new Government entities where we played banker, instead of letting the banks who know how to be banks be banks in communities.

Do you follow all that?

Ms. MOY. Yes; I think so.

Senator MIKULSKI. Now, you present this really excellent testimony, and I have been looking at the WEB Program, the Women

Entrepreneur Program in Baltimore, as well as the NationsBank effort to work with the Baltimore empowerment zone.

Could you just tell me very briefly, because we must move ahead. Your testimony essentially answers many of the fears and concerns that I had. But if you could: These issues of linkage, leverage, and availability to people, like $6,000 level loans for women, could you tell me how this actually worked in Baltimore? Maybe take one of those projects on linkage and leverage, and tell me why the Community Reinvestment Act would not have met that need, or are we playing bank when maybe we should pursue other options?

Ms. MOY. Those are excellent questions, and they are truly intertwined. The whole concept of CDFI's is that they are specialized, private institutions that fill niches that traditional financial institutions cannot fill.

Why can't these banks fill these niches? It would be too easy to say that they simply do not want to do it, though in some cases that is true.

Capital gaps often arise not because of risk or return, and not even perception. They arise for very nitty-gritty reasons and for very unglamorous reasons. For instance, the size of a transaction—you mentioned the $6,000 loan. It is not economic for most traditional financial institutions to make investments in that size because of their infrastructure and because of their overhead.

Size is a common problem. Volume is a common problem. Financial institutions look to cookie-cutter their investments in order to do large volumes, which improves their profit margins. This is not possible with many types of community development loans, I have found. I have not been at it as long as you, Senator, but I am older than I look, and I have been at it for some 20 years.

Senator MIKULSKI. I am not. [Laughter.]

Ms. MOY. In the 20 years that I have been doing this in the private sector, I have been able repeatedly to build products for my company that capitalized precisely on those capital gaps, areas they could not serve well.

I think the real way to make an impact is to push banks to do as much as they possibly can, and to work in partnership with CDFI's to cover the areas that they cannot.

In virtually every instance, our CDFI's are working with traditional banks, and with the Bank Enterprise Award Program, many of them are beginning to get more support from these banks than they ever have.

Senator MIKULSKI. So you are not in lieu of the bank?

Ms. MOY. Oh, absolutely not. I think the private sector works because people specialize. People do what they do best, and that is what they should be doing in the private market system. Our CDFI's in many cases are second to none in delivering certain types of credit.

In many cases, they develop an innovative product, show the private sector how to do it. And there are actually banks that are beginning to do small amounts of microenterprise lending, based on some of the models that have been pioneered by the CDFI's. The fund made a $450,000 grant to FINCA, which is a microenterprise organization working in Washington, DC, and in Baltimore. FINCA

works with different local community-based organizations, one of them being WEB, and they have pioneered the peer lending——

Senator MIKULSKI. Which is the Women Entrepreneurs Program.

Ms. MOY. In Baltimore, exactly, with a peer lending model, and they are adapting that international model, which has had so much success overseas, to the domestic market, and WEB is one of the first groups they are working with.

Senator MIKULSKI. What do they do?

Ms. MOY. In this country, microenterprise groups do not do just lending. They provide significant amounts of technical assistance. They do a lot of handholding. They train people in sound business practices. They help them actually startup their businesses. They provide peer and other group support to small organizations, which inevitably run into challenges during their first year, and they are there to provide additional capital as these organizations grow.

Mr. HAWKE. If I could add just one comment, Senator Mikulski, the CDFI fund also functions to leverage private capital from sources other than ordinary banking institutions, so it does tap into a broader range of leveraging.

Senator MIKULSKI. Like what?

Ms. MOY. Individuals, religious organizations, corporations, foundations.

Senator MIKULSKI. Well, thank you. I look forward to learning more about this. I know that my time has expired. You have answered many of my questions. I mean, my questions first of all about the CDFI fund. This is why these hearings are so important.

I knew WEB was important, and I knew NationsBank was coming into Baltimore, but they needed a trade group, a channel, a fiscal channel to get the resources down to the right level. The reason WEB is working is not only because of the money, but the technical assistance. A local credit union in a church might be able to give microloans, but they would not have done the technical assistance for someone who might be opening a home-based business like sewing and alterations.

Ms. MOY. Yes; many of them are in home-based businesses, actually.

Senator MIKULSKI. I really look forward to learning more about it. I have a great passion for microenterprise, I've seen how it has worked around the world. It really fortifies me to hear that it is now working in Baltimore and other communities. I think we need to closely monitor this with lessons learned, but I think the fact that it is beyond the Community Reinvestment Act, which was kind of a mandate, this is really helping them fulfill a social responsibility, but in a way that is most effective at the street corner or neighborhood level, is that right?

Ms. MOY. That is correct.

Senator MIKULSKI. Well, thank you very much.

Ms. MOY. Thank you, Senator.

Senator BOND. Thank you, Senator Mikulski.

I have been very much impressed by the testimony, as Senator Mikulski was, but I am very much concerned about the performance. As we put out the first $3 million, we will be waiting to see if it works.

PERFORMANCE STANDARDS

I am going to have a series of questions about your standards, about how we know if it is going to work. You present a great vision for something that might work, and before we go down the path of building this $50 million to $125 million to $1 billion, you have got to show me that this thing works.

I mean, nobody can argue with the glowing testimony. It sounds great. But there is an awful lot I want to see about how this works, what the standards are. I will submit that for the record.

Let me ask you here one nasty little question. How are you regulating CDFI to ensure that the funds are being used appropriately, that these entities will pose no financial risk to the taxpayer, and what happens to a financially troubled CDFI?

Ms. MOY. Senator, I do not regard that as a nasty question. I think it is a fundamental question that is a very important one.

The time that we have spent putting systems in place is precisely for this reason. I do not think anyone wants another program that does not work or has a troubled record. Our statute requires us to negotiate with each CDFI a set of performance goals that go right into the legal document that becomes the legal vehicle by which we award them moneys. They are required to report to us quarterly and annually on these goals, and we can take sanctions if they do not satisfy them.

Among the performance goals that are negotiated are financial and programmatic goals, and financial covenants of various sorts.

In doing so, the fund is cognizant of the individual needs of each organization and how it is different. At the same time, we require performance from everyone. The organizations that we selected we selected because of their impressive financial situation, condition, stability, management capacity and so forth.

Senator BOND. Will you be doing examinations of them?

Ms. MOY. Absolutely.

Senator BOND. And Treasury is responsible for that? When it goes bad, who do we hang, you? [Laughter.]

Mr. HAWKE. Senator, I am confident that we will be insisting on systems being in place to achieve the objectives you have right from the beginning of this program.

Senator BOND. But who do we hang out to dry?

Mr. HAWKE. This is an operation of the Treasury Department, Senator Bond.

Senator BOND. So you are volunteering? You are the one? You are the belly button we point at?

Mr. HAWKE. Yes, sir; this is one of our bureaus. We do not interfere with the independence of the decisionmaking of the CDFI fund, but the one thing that Director Moy and I have talked about again and again from the very beginning of this program was the need not only to have systems in place to assure that the process of making grants was transparent and had integrity to it, but that the followup process was demanding.

Senator BOND. You are responsible for what happens if one of them gets troubled. What do you do with it?

Ms. MOY. It depends on why they are in trouble. I mean, it is possible for people to get into trouble through no fault of their own.

When you constantly monitor an organization and look at their financials on a quarterly basis, you are generally not surprised by things that happen. You see trends.

The best answer, actually, the best solution is to intervene before you have a problem. We certainly do not want to be surprised by a problem.

Senator BOND. I just realized—do you take it over? I tell you what. Let me ask that you send me those answers, because we do have a series of questions that we would like to find out about, the goals, the standards, the performance objectives, and I am going to ask our staff, both sides of the staff to monitor what is actually happening, and I thank you very much for your testimony.

You present a great vision of what might happen, and we want to see that it does.

Senator MIKULSKI. And as you can see, there is both support and skepticism here. The skepticism is not harsh. We want to know what are we getting into, what our obligations are, and make sure it is not another hollow opportunity.

Perhaps in following up with our staffs, you could do it in a case example tracing through microenterprise, what happens if an individual defaults, what happens if the organization is in trouble, et cetera, et cetera. But also, how do you work in the first place: The anatomy of the good news, and then what would happen if there is bad news. This is asked in a no-fault way, but we need to get to know each other.

Ms. MOY. We would be happy to do that. Thank you, Senator.

[The information follows:]

OBJECT CLASSIFICATION SCHEDULE—DIRECT OBLIGATIONS

[Dollars in thousands]

| Object classification | Fiscal year | | |
|---|---|---|---|
| | 1996 actual | 1997 proposed operating level | 1998 budget estimate |
| Personnel compensation: Permanent positions | 590 | 1,500 | 2,700 |
| Total personnel compensation | 590 | 1,500 | 2,700 |
| Civilian personnel benefits | 137 | 375 | 725 |
| Travel and transportation of persons | 97 | 100 | 200 |
| Transportation of things | 8 | 25 | 5 |
| Rent, communications and utilities: | | | |
| Rental payments to GSA | | 340 | 450 |
| Rental payments to other agencies | 163 | 100 | |
| Communications, utilities and miscellaneous charges | | 80 | 60 |
| Printing and reproduction | 71 | 80 | 100 |
| Other services | 1,336 | 975 | 900 |
| Supplies | 48 | 75 | 80 |
| Equipment | 346 | 350 | 280 |
| Grants, subsidies and contributions | 46,701 | 71,000 | 119,500 |
| Total obligations | 49,497 | 75,000 | 125,000 |
| Unobligated balance available, SOY | (49,878) | (45,000) | (20,000) |
| Unobligated balance available, EOY | 45,000 | 20,000 | 20,000 |

OBJECT CLASSIFICATION SCHEDULE—DIRECT OBLIGATIONS—Continued

[Dollars in thousands]

| Object classification | Fiscal year | | |
|---|---|---|---|
| | 1996 actual | 1997 proposed operating level | 1998 budget estimate |
| Unobligated balance expiring | 381 | ..... | ..... |
| Total enacted appropriations and budget estimate | 45,000 | 50,000 | 125,000 |

ANALYSIS OF FISCAL YEAR 1997 APPROPRIATED LEVEL

[Dollars in thousands]

| | FTE | Amount |
|---|---|---|
| Fiscal year 1997 Proposed Operating Level | 23 | $75,000 |
| Fiscal year 1998 Estimate | 35 | 125,000 |

DIGEST OF FISCAL YEAR 1998 BUDGET ESTIMATES BY ACTIVITY

[Dollars in thousands]

| Budget activity | Fiscal year 1996 actual | | Fiscal year 1997 proposed operating level | | Fiscal year 1998 budget estimate | |
|---|---|---|---|---|---|---|
| | FTE | Amount | FTE | Amount | FTE | Amount |
| Management and administration: | | | | | | |
| Administrative services | ..... | $2,760 | ..... | $3,650 | ..... | $4,500 |
| Administrative expenses for Direct Loan Program [1] | ..... | 35 | ..... | 350 | ..... | 1,000 |
| Total management and administrative expenses | ..... | 2,795 | ..... | 4,000 | ..... | 5,500 |
| Assistance to CDFI's (other than direct loans) | ..... | 30,560 | ..... | 43,150 | ..... | 59,500 |
| Direct loan subsidy | ..... | 3,003 | ..... | 12,850 | ..... | 20,000 |
| Incentives for depository institutions | ..... | 13,139 | ..... | 15,000 | ..... | 40,000 |
| Subtotal, operating level | ..... | 49,497 | ..... | 75,000 | ..... | 125,000 |
| Unobligated balance available, SOY | ..... | (49,878) | ..... | (45,000) | ..... | (20,000) |
| Unobligated balance available, EOY | ..... | 45,000 | ..... | 20,000 | ..... | 20,000 |
| Unobligated balance expiring | ..... | 381 | ..... | ..... | ..... | ..... |
| Total enacted appropriations and budget estimate | 10 | 45,000 | 23 | 50,000 | 35 | 125,000 |

[1] The amount for fiscal year 1998 is a ''not to exceed'' amount that may be used for administrative expenses for the Direct Loan Program.

## COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

### SUMMARY JUSTIFICATION OF FISCAL YEAR 1998 BUDGET ESTIMATES

#### GENERAL STATEMENT

The CDFI Fund represents a new direction for community development initiatives, by using limited public resources to invest in and build the capacity of the private sector to address the community development financing needs of distressed urban and rural communities. The CDFI Fund's initiatives are designed to unleash

large amounts of private capital, emphasize private sector market discipline, and take full advantage of private sector human talent, energy and creativity. Decisions about which specific projects and businesses to finance are left to the private sector. The effect of these efforts will be to address market inefficiencies which exist in distressed communities, restore healthy private market activity, promote entrepreneurship, revitalize neighborhoods, generate tax revenues, and empower local residents.

Through the CDFI Program, the CDFI Fund stimulates the creation and expansion of a diverse set of specialized, private, for profit and nonprofit financial institutions known as community development financial institutions (CDFI's). These specialized institutions complement the role of traditional financial institutions by filling niches in the market which traditional financial institutions are not well positioned to serve. CDFI's cover a broad range of institution types, such as community development banks, community development credit unions, community development loan funds, community development venture capital funds, and microenterprise loan funds. They provide a wide range of financial products and services to distressed urban and rural communities and to low income populations, such as commercial loans and investments to start or expand small businesses, loans for first time home buyers, loans to rehabilitate rental housing, and loans for community facilities. The CDFI Fund will: (1) invest directly in CDFI's that satisfy high quality standards and raise private matching funds; (2) provide training and technical assistance to improve the capacity of CDFI's; and (3) implement secondary market initiatives which draw in new sources of private institutional capital to support the activities of CDFI's.

In its first round under the CDFI Program, the CDFI Fund selected 32 organizations to receive a total of $37.2 million in equity investments, loans, capital grants and technical assistance. But this barely scratches the surface of what needs to be done to achieve the full potential of CDFI's.

Interest and demand for the CDFI program has dramatically exceeded expectations, with requests for assistance last year exceeding $300 million. The interest demonstrated by the initial pool of applicants, plus continued growth and interest in new CDFI formation, indicate the dramatic potential for future investment for the CDFI Fund to stimulate expansion of the diverse CDFI industry.

In addition to making increased direct investments in CDFI's, the CDFI Fund is planning to take full advantage of the potential of the diverse and growing CDFI field by implementing new initiatives to expand the Fund's tools for assisting CDFI's, and keeping the Fund on the cutting edge of innovation. An important new training initiative will significantly enhance the capacity of private sector organizations to provide a full range of training and technical assistance services to CDFI's at affordable prices. This initiative will emphasize quality and market discipline in the training and technical assistance services delivered by private sector providers. By using its resources to enhance capacity in this way, the CDFI Fund will build on the existing marketplace for these services, which will be a much more effective approach than if the Fund were to provide these services directly. In the long term, this initiative will also help ensure the maximum effectiveness of the CDFI Fund's future investments in an increasing number of CDFI's.

While supporting the creation and expansion of new types of specialized private financial institutions, the CDFI Fund's programs also recognize the key role being played by traditional financial institutions—banks and thrifts—in community development lending and investing. In recent years, many such traditional financial institutions have increased their efforts to lend and invest in distressed communities. By offering incentives to such traditional financial institutions through its Bank Enterprise Awards (BEA) Program, the CDFI Fund builds on these trends and assists traditional financial institutions in enhancing their direct community development lending, as well as in investing in CDFI's.

In the first round of the BEA Program, the CDFI Fund made a total of $13.1 million in incentive awards to 38 insured depository institutions. These awards supported more than $120 million in total community development investments by banks and thrifts. By making improvements in the program and by engaging in increased outreach to the banking and thrift industries, use of the program can be dramatically enhanced.

As a new organization, in addition to refining its programs and developing new initiatives, the CDFI Fund is working to develop a full set of performance goals, measures and numerical targets in time for the fiscal year 1999 budget presentation. Included in this year's presentation is some initial thinking on possible performance measures.

ACTIVITY: 1. MANAGEMENT AND ADMINISTRATION

*Functions:* Provides management, staff and other services which enable the Fund to develop and implement policies and programs, monitor investments, and provide support functions for these activities.

*Mission Statement:* Management and Administration is intended to develop and implement the initiatives of the CDFI Fund with the highest possible quality and professionalism to maximize the capacity of the Fund to achieve its objectives.

[In thousands of dollars]

| | Fiscal year | | |
|---|---|---|---|
| | 1996 actual | 1997 estimate | 1998 estimate |
| Budget Authority [1] | 2,795 | 4,000 | 5,500 |

[1] These amounts include administrative expenses for the Direct Loan Program.

*Performance Goal:* To build a strong staff with skills and experience appropriate to the fund's unique activities.

| Objective | Performance measure (indicator) | Type of measure |
|---|---|---|
| Emphasize quality, relevant experience and record of achievement in hiring. | Number of staff hired to fill targeted positions that have the desired skills and professional experience. | Output. |
| | Contribution of staff in meeting overall performance goals of CDFI Fund through meeting of goals in individual performance plans. | Outcome. |
| Build a staff reflecting appropriate diversity that can serve as a model for other organizations. | Number of staff sorted by diversity characteristics | Output. |
| Ongoing training and skills development of existing staff. | Number of CDFI Fund staff members that attend training sessions or other educational and developmental opportunities. | Output. |
| Design and implement system to evaluate impact of Funds' programs. | Implement internal data collection and retrieval system on participating CDFI's. | Output. |
| | Design CDFI performance evaluation process and complete paper setting forth approach to long term impact evaluation. | Output. |

ACTIVITIES: 2 AND 3. ASSISTANCE TO CDFI'S (INCLUDING DIRECT LOANS)

*Functions:* The Fund makes investments in quality CDFI's, by providing assistance in the form of equity investments, loans, capital grants, and deposits or shares. The form of financial assistance depends on the individualized needs of a CDFI as reflected in a realistic business plan, consistent with its ability to raise private matching funds in a comparable form. The Fund will also assist CDFI's through training and technical assistance initiatives, and by providing assistance to organizations that enhance the liquidity of CDFI's.

*Mission Statement:* Assistance to CDFI's is intended to spur the creation and expansion of these specialized private financial institutions and to enhance both immediate private sector capacity to address community development financing needs in distressed communities, as well as to strengthen the long term capacity of these institutions to serve such needs and help restore healthy private market activity in distressed communities.

[Dollars in thousands]

| | Fiscal year | | |
|---|---|---|---|
| | 1996 actual | 1997 estimate | 1998 estimate |
| Budget Authority (Other than Direct Loans) | $30,560 | $43,150 | $59,500 |

[Dollars in thousands]

| | Fiscal year | | |
|---|---|---|---|
| | 1996 actual | 1997 estimate | 1998 estimate |
| Budget Authority (Direct Loan Subsidy) [1] | $3,003 | $12,850 | $20,000 |
| Direct Loan Level [2] | $6,660 | $33,316 | $52,521 |
| Direct Loan Subsidy Rates [3] (Percentage) | 45.09 | 38.57 | 38.08 |

[1] For fiscal year 1997 and fiscal year 1998 these are upper limits. The actual mix between loans and other forms of financial assistance will depend on the individualized needs of CDFI's as reflected in realistic business plans, consistent with their ability to raise private matching funds in a comparable form.

[2] For fiscal year 1997 and fiscal year 1998 these are upper limits, based on the assumed direct loan subsidy rate.

[3] The 45.5 percent subsidy rate for fiscal year 1996 that appears in the President's fiscal year 1998 Budget should actually be 45.09 percent.

*Performance Goal:* To strengthen and expand the network of private financial institutions to address the community development financing needs of distressed urban and rural communities and underserved populations.

| Objective | Performance measure (indicator) | Type of measure |
|---|---|---|
| To increase the cumulative number of CDFI's to which the Fund provides financial assistance while maintaining high quality standards and promoting diversity. | Number of CDFI's which receive financial assistance from the CDFI Fund which have not previously received such assistance. | Output. |
| | Cumulative number and percent of participating CDFI's by geographic region, institution type, urban v. rural focus. | Output. |
| To implement a secondary market initiative to bring increased liquidity for CDFI's. | Issuance of regulations and Notification of Funding Availability (NOFA). | Output. |
| To implement effective training and technical assistance initiatives which enhance the capacity of CDFI's now and in the future. | Number of participants in training and technical assistance programs. | Output. |
| | Number of CDFI's which report improved capacity as a result of participating in training and technical assistance programs. | Output and outcome. |

ACTIVITY: 4. INCENTIVES FOR DEPOSITORY INSTITUTIONS

*Functions:* Through the Bank Enterprise Awards (BEA) Program, the Fund makes cash awards to banks and thrifts that increase their community development lending, investment, and provision of financial services. The Fund will use up to one-third of program funds for BEA. All insured banks and thrifts are eligible to participate.

*Mission Statement:* The BEA Program is intended to provide incentives and rewards which assist traditional financial institutions in prudently enhancing their activities in distressed urban and rural communities, by direct lending and investing and also by investing in CDFI's.

[In thousands of dollars]

| | Fiscal year | | |
|---|---|---|---|
| | 1996 actual | 1997 estimate | 1998 estimate |
| Budget Authority | 13,139 | 15,000 | 40,000 |

*Performance Goal:* To increase the general effectiveness and community development impact of the Bank Enterprise Award (BEA) Program.

| Objective | Performance measure (indicator) | Type of measure |
|---|---|---|
| Simplify and reform regulation to improve program participation. | Incremental and cumulative number of awards ..... | Output. |
| | Reforms proposed ..... | Output. |
| | Incremental and cumulative dollars awarded ..... | Output. |
| Develop and propose legislative improvements to the program. | Legislative improvements proposed ..... | Output. |
| Expand the awareness of the BEA program by working with the appropriate regulators and trade associations. | Implementation of effective outreach program to appropriate regulatory entities, trade associations and others as appropriate. | Outcome. |
| | Number of applicants in program ..... | Output. |

## DEPARTMENT OF THE TREASURY

### COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND PROGRAMS

#### FEDERAL FUNDS

General and Special Funds:

For grants, loans and technical assistance to qualifying community development lenders, and administrative expenses of the Fund, *$125,000,000*, to remain available until September 30, 1999, of which *$20,000,000* may be used for the cost of direct loans, and up to *$1,000,000* may be used for administrative expenses to carry out the direct loan program: *Provided*, That the cost of direct loans, including the cost of modifying such loans, shall be defined as in section 502 of the Congressional Budget Act of 1974: *Provided further, That these funds are available to subsidize gross obligations for the principal amount of direct loans not to exceed $53,000,000: Provided further*, That not more than *$40,000,000* of the funds made available under this heading may be used for programs and activities authorized in section 114 of the Community Development Banking and Financial Institutions Act of 1994.

## ADDITIONAL COMMITTEE QUESTIONS

Senator BOND. Thank you very much, Ms. Moy and Mr. Hawke.

[The following questions were not asked at the hearing, but were submitted to the Institutions for response subsequent to the hearing:]

### QUESTIONS SUBMITTED BY SENATOR BOND

#### NO TRACK RECORD AND RUSHING THE PRODUCT

*Question*. The President's Budget is requesting a substantial increase (150 percent in the funding for the CDFI Fund including the CDFI program and the Bank Enterprise Act) from $50 million in fiscal year 1997 to $125 million in fiscal year 1998, with an overall target of $1 billion by fiscal year 2002. This is a substantial increase for a new program, especially a new program without a proven track record or any experience. How do you justify this large increase?

Answer. The requested increase in funding is justified by the great demand and need for the types of assistance provided by the CDFI Fund. The dramatic response to the CDFI Program during its first funding round provides an illustration—and good proxy—of the demand and unmet needs for the Fund's products. The Fund received 268 applications for the CDFI Program from organizations in need of investment capital and technical assistance. The requests for funding exceeded $300 million—approximately 10 times the amount of resources initially made available. The applicants that submitted requests represented only a portion of the universe that are likely to be eligible for assistance. Moreover, the Fund has received inquiries from a substantial number of groups expressing interest in the formation of new CDFI's. Finally, it should be noted that because of limited resources available to the Fund, those applicants that received funding received, on average, only 60 percent of the amount requested.

CURRENTLY AVAILABLE FUNDING

*Question.* I understand that the CDFI Fund actually obligated approximately $37.2 million for the CDFI program and approximately $13.1 million for the Bank Enterprise Act (BEA) program. How much additional funding does the CDFI Fund currently have available for funding new awards during fiscal year 1997 and when does the CDFI Fund plan to make this funding available?

Answer. For funding new awards during fiscal year 1997, the Fund currently has available $95 million in appropriated funds. The Fund recently published notices in the Federal Register for its second funding rounds of the CDFI Program and the BEA Program (see Attachments 1a and 1b). The CDFI Program notices indicate that the Fund intends to make available up to $40 million for this program which is expected to be fully obligated by September 30, 1997.

By the summer, the Fund plans to issue funds availability notices for funding rounds for training (authorized pursuant to Section 103 of the Riegle Community Development and Regulatory Improvement Act of 1994 (Public Law 103–325)) and for a secondary market initiative (authorized pursuant to Section 119 of the Riegle Community Development and Regulatory Improvement Act of 1994) totaling approximately $20 million. The Fund anticipates obligating the funds for these two new initiatives by the end of calendar year 1997.

As required by the Fund's authorizing statute, one-third of all appropriated program monies must be made available under the BEA Program. Thus, the Fund must make available $30 million for the BEA Program. On March 7, 1997, the Fund published a notice in the Federal Register announcing the availability of $16.25 million for the second funding round of the BEA Program. However, if requests exceed $16.25 million during the second funding round, the Fund intends to obligate as much of the $30 million as possible by September 30, 1997. The balance of the unobligated BEA monies will be rolled over into next funding round which is expected to be announced in the Federal Register in October 1997.

*Question.* In addition, the testimony seems clear that not a single dollar of the $37.2 million in CDFI program funds have actually been obligated or leveraged on a single project or activity. If this is true, how do you measure the success of the CDFI program for which there is not data?

Answer. The Fund has obligated $37.2 million in equity investments, grants and loans under the CDFI Program and disbursed or initiated disbursements of $13.6 million—or 37 percent—of such obligated funds. The Fund expects to disburse nearly all of its fiscal year 1995 monies by September 30, 1997. The Fund is working diligently to disburse the remaining awards as expeditiously as possible after the Fund and each awardee enters into a formal agreement that requires the institution to comply with performance goals that are rigorous and tailored to the unique elements of the institutions and the needs of the communities they serve and abide by other terms and conditions pertinent to the award. The requirements for the formal agreement are set forth in Section 108(f)(2) of the Riegle Community Development and Regulatory Improvement Act of 1994. As discussed the Fund recently published notices in the Federal Register for the CDFI Program and the BEA Program announcing the availability of funding rounds for fiscal year 1996 and fiscal year 1997 appropriated dollars most of which it expects to obligate by September 30, 1997.

Some data currently exists that allows the Fund to measure the success of the CDFI Program. For example, the CDFI Program has already demonstrated a significant ability to leverage funds from non-Federal sources. More than $50 million of such matching money has already been raised and received by the 32 organizations selected for funding in the first funding round of the Program. This money has, in turn, leveraged additional funds and resulted in a total of over $100 million raised and made available to finance community development activities. In several cases, actual development transactions have already occurred. For example, one of our awardees reports that the Fund's $3 million grant has already enabled it to effectuate $24 million in home mortgage and commercial lending transactions. Over the next two to three years, the $37.2 million in CDFI Program awards are expected to leverage three to four times that amount in total capital raised for these institutions.

*Question.* In addition, how many grant agreements have actually been signed or entered into under the CDFI program? Please provide a list that describes each grant, each grant agreement, and the date on which the grant agreement was signed or executed, and the date and amount of the disbursement of any funds. Please list each BEA award by award, date of award and by activity.

Answer. The Fund enters into an Assistance Agreement with each awardee prior to providing any assistance to such awardee. The Fund may provide assistance in

the form of an equity investment, deposit, loan, grant, technical assistance, or some combination of these instruments. To date, the Fund has entered into ten Assistance Agreements with awardees under the CDFI Program. Under the BEA Program, the Fund must enter into an Award Agreement with each awardee prior to providing an award to such awardee. All awards are in the form of a grant under the BEA Program. To date, the Fund has entered into Award Agreements with all of the 38 institutions selected to receive assistance under the BEA Program. Please see Attachments 2a and 2b which describe each form of assistance provided under the CDFI Program, the date on which each Assistance Agreement was executed, the amount of disbursement of each CDFI Program award and each Bank Enterprise Award, the date on which each Bank Enterprise Awardee Agreement was executed, the amount of disbursement of each Bank Enterprise Award, and the activities for which such award was granted.

SUCCESS OR FAILURE OF THE CDFI PROGRAM

*Question*. When will there be enough data and program experience to analyze the strengths and weaknesses and the successes and failures of the CDFI program? What benchmarks have you established for analyzing the use of CDFI program funds? What steps have you taken for program integrity to prevent fraud and abuse by CDFI program grantees? Has the CDFI Fund established post-award audit review requirements for each CDFI grant? If not, why not?

Answer. The Fund will collect financial and performance data from CDFI Program awardees on a quarterly and annual basis. This information will be compiled and reported to Congress as part of the Fund's annual report. The Fund is taking great care to design and implement the systems and procedures necessary to effectively monitor and evaluate the use of its assistance, impact of its investments, and the financial and managerial soundness of the organizations it funds. To this end, the Fund requires awardees to report at least annually on the manner in which Fund assistance has been used. The Fund negotiates with each award winner specific performance goals and financial soundness covenants for non-regulated financial institutions. In this manner, the Fund attempts to ensure program integrity and prevent fraud and abuse by awardees.

In addition, the Fund has worked closely with the Treasury Department's Office of Inspector General and has sought the assistance of consultants in developing its internal quality control systems and procedures.

The Fund's Assistance Agreements with each unregulated CDFI awardee requires such awardees to submit audited financial statements to the Fund each year. In the case of regulated institutions, the Fund requirements seek to conform, to the greatest extent possible, with the financial reporting requirements of each awardee's Federal regulatory agency.

LEVERAGING OF FUNDS

*Question*. What are the yardsticks used to determine whether a CDFI grant applicant can leverage other funds successfully? What do you look for in a CDFI grant applicant in assessing the ability of the grant applicant to meet the needs of a distressed community successfully (i.e. Do you look for roots in a community? Do you look for a track record of community development experience? Do you look for a firm commitment of funds?)

Answer. CDFI Program awardees are required to raise a one-to-one match for each dollar of funds requested. Applicants must submit evidence of their ability to leverage such matching monies as part of their application for assistance. Firm commitments are the best evidence of such ability, but other factors such as strength of the applicant's fund raising strategy and track record are also considered. However, the Fund will not disburse any assistance until the requisite matching funds are raised. The selection criteria provide that the Fund give additional consideration to applicants that have firm commitments. The CDFI Program Regulations, at 12 C.F.R. § 1805.902, state that "at a minimum, a firm commitment must consist of a binding written agreement between an Awardee and the source of the matching funds that is conditioned only upon availability of the Fund's assistance and other such conditions as the Fund, in its sole discretion, may deem appropriate. Such agreement must provide for disbursal of the matching funds prior to, or simultaneous with, receipt by the Awardee of the Federal funds."

The matching funds represent only the initial leverage resulting from a CDFI Program award. Applications are evaluated, in part, by evaluating the potential for ongoing sources of funds that will be leveraged by the Fund investment. Potential sources of leverage include any excess match over the minimum required match, le-

verage of net worth infusion through borrowing and recycling of loan funds, and attraction of additional investment into specific deals to be financed by the CDFI.

The Program's evaluation criteria are designed to ensure that Federal resources are invested prudently and in a manner that maximizes the potential of investing in organizations with long-term viability that will serve their communities on a long-term self-sustaining basis. CDFI awardees are selected based on track record, management capacity, skills and experience, quality of the business plan, ability to raise matching funds, and community development impact.

REVIEW PROCESS AND REVIEWERS

*Question*. What is the review process for applications for CDFI program funding? What is the specific criteria used for assessing applications? Describe the scoring/ranking system used for reviewing the applications. Was the criteria applied consistently and uniformly for all applications?

What was the review process for the CDFI program applications?

Answer. The review process used to select CDFI award recipients in the first funding round was described in the regulations and applicable notice of funds availability notice (see Attachment 3), published in the Federal Register on October 19, 1995. The regulations and notice did not prescribe a scoring/ranking system for evaluating applications; instead those documents set forth a process similar to an investment analysis methodology utilized by private sector investors. CDFI award recipients were chosen on the basis of a wide range of factors including track record, management capacity, skills and experience, quality of the business plan, ability to raise matching funds, and community development impact. These criteria were applied fairly and consistently to all applicants.

Winners were chosen as a result of a tiered review process. In an effort to conduct the review in an efficient manner, the Fund conducted different "tiers" of the process simultaneously. Tier 1 of the review process was intended to ensure that each applicant met the eligibility requirements and submitted complete application materials. Tier 2 of the review process was intended to ensure that each applicant meeting the Tier 1 requirements possessed the financial and organizational capacity to be a successful CDFI. The Fund actually performed each Tier 2 review as part of a Tier 3 review since each factor under Tier 2 was thoroughly examined under Tier 3. Tier 3 of the review process considered additional factors and ultimately resulted in the selection of award winners.

The selection criteria listed in the regulations were also reflected on the guidance sheet given to contractors and Fund staff that performed the qualitative reviews of applications (see Attachment 4). The evaluation process and criteria aimed to ensure that the Fund invested prudently in a manner that maximized the potential of investing in organizations that could continue to provide capital in their communities on a long-term self-sustaining basis. As part of the Tier 3 review, 59 organizations were determined to be sufficiently competitive to be invited by the Fund for an interview with the final review panel. Of those interviewed, 32 were selected to receive an award. In conducting the reviews, the Fund used permanent staff, as well as outside experts, to supplement and complement internal staff.

On April 4, 1997, the Fund published revisions to its interim regulations in the Federal Register that made modest changes to the review process (see Attachment 5). Sections 1805.800 through 1805.802 of those regulations outline the evaluation and selection process. Without eliminating any of the evaluation factors, the revised interim rule restructures the process of evaluating applications described to expedite the process and improve efficiency.

The current revised interim rule consolidates what had been Tier 2 (financial and organizational capacity) and Tier 3 (other qualitative criteria) reviews into one set of substantive review criteria. However, the selection criteria originally set forth on October 19, 1995, are retained. The current regulations clarify that the criteria to be considered include the quality of the applicant's business plan and the extent and nature of the applicant's potential community development impact that will be catalyzed relative to the amount of assistance to be provided by the Fund. While ensuring fairness and consistency, the Fund will seek to implement the evaluation and selection process in a manner that takes into consideration the unique characteristics of applicants that vary by organizational type, total asset size, and stage of organizational development.

UNBIASED AWARD STRUCTURE

*Question*. What safeguards have the CDFI Fund implemented to ensure an unbiased grant award system? For example, have any of the reviewers or panel reviewers for the CDFI program ever been employed by any of the applicant organizations

or their affiliates or ever sought or maintained client relationships with such organizations? If yes, please provide details including the names of individuals, organizations and the dates of the affiliation or the employment.

Answer. The CDFI Fund established a selection process with respect to all CDFI Program applications that was unbiased, fair, thorough and rigorous and included safeguards to ensure that no one person possessed a dispositive influence over which entities were chosen as winners. All Awardees under the CDFI Program were chosen by a unanimous decision of a panel composed of five people. The CDFI Fund evaluated factors including track record and financial strength; capacity, skills and experience of the management team; quality of the applicant's business plan; ability to raise non-federal matching funds; and community development impact.

The CDFI Fund staff and outside contractors were used in the initial review stage, with each contractor reviewing one or two groups of applications, with groups defined on the basis of type of organization (and in some cases, further defined by region of the country). The tasks for these reviewers during the initial review stage was to review each application carefully in order to make recommendations about those applications that were potentially competitive and therefore should be given further consideration by the second-stage review panel.

The second-stage review panel reached all of its decisions unanimously. This review panel made evaluations, performed due diligence, and unanimously determined which applicants would receive assistance. The decisions of the second-stage review panel were subject to the approval of the CDFI Fund Director.

The Fund's Deputy Director, Steve Rohde, was an employee of the Local Initiatives Support Corporation (LISC), an award recipient, prior to joining the Fund. Mr. Rohde has not had any financial interest in LISC since leaving his position with the organization. Like all other CDFI Program winners, LISC was chosen as a result of a rigorous selection process in which no one person had dispositive influence. The review panel that ultimately selected LISC as a winner made a unanimous decision with respect to LISC and all other winners.

Prior to joining the CDFI Fund, the CDFI Fund Director Kirsten Moy served as a member of an advisory committee in connection with the New York activities of the Low Income Housing Fund, a CDFI Program winner. As a volunteer advisor, Ms. Moy was not compensated for her service on the committee.

The Deputy Director of the CDFI Fund, in consultation with individual reviewers, identified actual and potential conflicts of interest that reviewers had with respect to any applications, and the Deputy Director made the determination that a particular set of facts could lead to a conflict and, therefore, prevented an expert from reviewing a particular application, as follows:

(a) Dan Lopez was a member of the Board of Directors of the Low Income Housing Fund and was not assigned that application.

(b) James Paquet was on a detail from the State of Michigan to the CDFI Fund under the Intergovernmental Personnel Act. Mr. Paquet was not assigned any applications from Michigan. Instead, he was assigned a group of applications consisting of business loan funds in the Northeast region.

(c) In the early to mid 1980's, Laura Henze Russell had been Executive Director of an organization now known as the Local Enterprise Assistance Fund, based in Boston. Ms. Russell was not assigned the application of Local Enterprise Assistance Fund. She was assigned a group of applications consisting of business loan funds from the Midwest and West regions.

(d) Fredric Cooper formerly worked for The Enterprise Foundation, which had a relationship with the San Antonio Housing Trust Foundation, an applicant. Enterprise Foundation was not an applicant. Mr. Cooper was assigned a group of housing loan funds from the Northeast and Midwest.

(e) Alan Okagaki had been an employee and subcontractor of Shorebank Advisory Services and a consultant to Southern Development Bancorporation. After an initial look at the Albina Community Bancorp application Mr. Okagaki informed the CDFI Fund that there was significant material in that application that Mr. Okagaki recognized as having been previously prepared by Shorebank Advisory Services. He was excluded from reviewing the applications of Shorebank Corporation, Douglass Bancorp, Louisville Development Bancorporation, Southern Development Bancorporation, and Albina because Shorebank Advisory Services had had a consulting relationship with these institutions.

(f) In the second stage review panel, Paul Pryde, who did not participate in the initial stage review, recused himself from two applications, McAuley Institute and Community Bank of the Bay, because of an appearance of a conflict.

GRANT REVIEWS

*Question*. Did the CDFI Fund accept revisions to applications from certain applicants? What rules did the CDFI Fund establish with regard to revisions to ensure a fair process for all CDFI applicants? If revisions were permitted for any grant application, please provide the details of each revision, including all dates and contacts between the CDFI fund and the applicant?

Answer. The Fund does not accept revisions to applications from any applicants. The Fund's regulations, at 12 C.F.R. §§ 1805.700 and 1806.206, provide that the Fund "may request clarifying or technical information" with respect to any application submitted to the CDFI or BEA Program, respectively. Consequently, when the Fund determines that it is appropriate and necessary for its decision making, it requests clarifying or technical information from applicants.

In addition, the Fund accepts from all applicants supplemental information that updates previous submitted material or otherwise informs the Fund of changes in information previously submitted.

*Question*. Did any reviewer or panel reviewer provide assistance to any of the applicants or their representatives with respect to the preparation or revision of any part of an application or for supplemental information provided to or requested by the CDFI Fund? If yes, please provide the date and details of each occurrence.

Answer. The Fund or its reviewers did not provide assistance to any of the applicants or their representatives with respect to the preparation or revision of any part of an application or for supplemental information provided to or requested by the Fund. Section 105(c) of the Riegle Community Development and Regulatory Improvement Act of 1994 (Public Law 103–325) states that

> [t]he Fund shall provide an outreach program to identify and provide information to potential applicants and may provide technical assistance to potential applicants, but shall not assist in the preparation of any application.

Accordingly, the Fund provided an outreach program to applicants. Such outreach was accomplished through workshops, publications and other means and included general information about the Fund's programs and their requirements. The Fund provided outreach services to all interested parties on an equal basis.

FEDERAL REGISTER

*Question*. On March 18, 1996, the CDFI Fund published in the Federal Register a waiver of the deadline for receipt of an application under the CDFI and BEA programs for certain applications. What was the nature and reason for this waiver? Please provide a detailed list describing all application materials and information which were received by the CDFI Fund between the original deadline of January 29, 1996 at 4:00 p.m. and March 13, 1996.

Answer. On March 18, 1996, the Fund published a waiver in the Federal Register of its January 29, 1996, 4 p.m., application deadline for the CDFI and BEA Programs. The Fund determined it would accept an application if: (1) the application was actually received by the Fund on January 29, 1996; (2) the application was mailed with a postmark date on or before January 29, 1996; or (3) the application was delivered to a professional courier service on or before January 29, 1996. This waiver was based on the determination that such waiver promoted the achievement of the purposes of the CDFI Program and the BEA Program and their underlying statutes. Several factors contributed to the Fund's determination to grant this waiver. First, in the first year of implementation of these programs, it was determined to be in the Fund's interest to seek the broadest possible participation. Second, preparing an application required an extensive amount of work which, without the waiver, might have gone to waste merely because of a technical failure in the mail or delivery process. Third, given the fact that these programs are new, and some of the applicants had never previously applied to the Federal government for funding, there appeared to have been some confusion about the precise requirements for delivery of an application in a timely fashion. Finally, the effect of the requirement that the Fund be in receipt of an application by a specified time appeared to have had a disproportionate effect on applications from geographically remote places. Thus, strict enforcement of the deadline could have hindered the Fund in achieving its geographic diversity objectives. See Attachment 6 for a list of items accepted between January 29, 1996, 4 p.m., and March 13, 1996.

FUTURE FUNDING

*Question*. When will the CDFI Fund announce the next round of funding? You appear to be 4 to 5 months behind the schedule of your first round.

Answer. On March 7, 1997, the Fund published a Notice of Funds Availability for the second round of the BEA Program (see Attachment 1b). On April 4, 1997, the Fund published Notices of Funds Availability in connection with the CDFI Program (see Attachments 1a).

FINANCIAL SAFETY AND SOUNDNESS REQUIREMENTS

*Question*. How will CDFI entities be regulated to ensure that CDFI funds are being used appropriately and that these entities will not pose a financial risk to the American taxpayer. What happens to a financially troubled CDFI?

Answer. CDFI Program awardees are required to comply with numerous federal requirements and reporting mandates that are intended to protect the taxpayers' interest. In the event that an awardee does not comply with the aforementioned requirements, the CDFI Fund has a range of remedies that it may employ. These mandates or requirements include:

(1) Compliance with government requirements including all Federal, state and local laws, regulations, ordinances, applicable Office of Management and Budget Circulars, and applicable Executive Orders;

(2) Mandatory reporting to the U.S. Department of the Treasury Inspector General of the existence or apparent existence of fraud, waste or abuse of Federal assistance;

(3) Provision of financial and activity reports, records, statements, and documents as may be requested to ensure compliance with the assistance agreement. An Awardee is required to provide full and free access to its officers and facilities and all books, documents, records, and financial statements relating to the use of assistance;

(4) Compliance with all record retention requirements set forth on OMB Circular A–110 and, pursuant to such Circular, retention of all financial records, supporting documents, and statistical records pertinent to the assistance;

(5) Maintenance of records necessary to disclose the manner in which assistance provided is used and demonstrate compliance with the requirements of the CDFI Program regulations and the assistance agreement;

(6) Submission of quarterly reports after the end of each fiscal quarter in a form that is prescribed by the CDFI Fund in the assistance agreement;

(7) Submission of an annual report that includes, among other things, information regarding the manner in which assistance or matching funds were used, financial condition and financial performance, activities and initiatives engaged in which enhance the awardee's ability to promote community development, the awardee's strategy for achieving its performance goals or enhancing its financial performance, and the ethnic, racial or gender composition of its borrowers or investees;

(8) Compliance with the Equal Credit Opportunity Act, where applicable; and

(9) Compliance with restrictions on certain insider activities.

DISPLACING BANKS

*Question*. There has been some concern that CDFI's could indirectly discourage more traditional financial institutions may not feel welcome or may conclude that their presence is not needed. Couldn't this result in isolating distressed communities even more from access to mainstream financial resources and opportunities for economic revitalization? How are you monitoring this concern?

Answer. The roles of CDFI's and traditional financial institutions are mutually reinforcing. CDFI's are not a substitute—and should not be considered a replacement—for traditional financial institutions. CDFI's complement the strong and active role that banks and thrifts should play in providing credit within distressed communities. CDFI's are specialized, private financial institutions that fill niches that traditional financial institutions cannot fill—or will not fill on their own. The credit needs in distressed communities are often unique and require innovative solutions. CDFI's are distinct from traditional financial institutions because they have developed specialized expertise in delivering certain types of credit—such as micro loans, financing day care or public health care facilities, or financing housing for people with AIDS or other special needs. In many communities, CDFI's have pioneered innovative new products that were later adopted by local banks or developed partnerships with banks to address unique local needs. For example, many microenterprise programs work with low income entrepreneurs that have credit problems or that don't meet standardized underwriting criteria. In these cases, the micro enterprise programs work with these individuals to build their business skills and history as credit-worthy business borrowers. After the borrowers have developed a track record, they are often "graduated" to become borrowers of traditional financial institutions. Many traditional financial institutions see their partnerships with

CDFI's as a vehicle to reach into markets that they could not otherwise reach. In fact, the CDFI Fund's Bank Enterprise Award Program recognizes the importance of these relationships and is designed to foster partnerships between CDFI's, as well as promote increasing lending and service provision within very distressed neighborhoods. (Attachment 7 describes the impact and activities generated by the BEA Program.) In summary, CDFI's help to integrate—not isolate—distressed communities into the economic mainstream.

DRAINING OF EXISTING ECONOMIC DEVELOPMENT RESOURCES

*Question*. There is often a concern that there is only so many dollars in the private market available for economic development and affordable housing resource. Since there are such expectations for the CDFI program to leverage significant non-federal funds, has there been any review of where this capital is coming from, and whether it is likely to be drained from other funding sources traditionally used for community development and housing projects?

Answer. The vast majority of matching funds received by assisted CDFI's are from private sector sources of capital. Of the 31 organizations selected to receive CDFI assistance, 72 percent derived all of their matching funds from private sources (e.g. banks, corporations, foundations, individuals) and 19 percent derived between 99 percent and 70 percent of their matching funds from private sources. Only three awardees raised less than 70 percent of their matching monies from private sources.

BANK ENTERPRISE ACT

*Question*. The Bank Enterprise Act (BEA) has been implemented as a separate account under the CDFI Fund. Under BEA, traditional financial institutions are encouraged through BEA awards to invest, lend and provide other financial services in distressed communities. Isn't it better to encourage through the BEA the availability of traditional financial services and credit in distressed communities than to establish a new and separate banking system for these communities?

Answer. CDFI's and traditional financial institutions both play complementary and important roles in serving the credit and financial service needs of distressed communities. In fact, the CDFI Program and BEA Program were crafted by Congress to work together. Specifically, the CDFI Program requires award recipients to obtain matching funds from non-Federal sources and permits monies committed by banks and thrifts under the BEA Program to assist in meeting that match. In addition, under the BEA Program, banks and thrifts that provide support to CDFI's are given priority consideration for BEA funding. Hence, the CDFI Program and the BEA Program are both critically important to improving access to credit and promoting revitalization and deserve support. Please also see answer to Question 12.

STAFFING NEEDS

*Question*. Please describe your staffing needs for administering the CDFI program. Since there are so many types of entities and activities involved, how will you ensure program integrity?

Answer. The CDFI Fund is in the process of adding staff in certain critical areas to ensure that key functions are and/or will be adequately covered. Among these critical areas are program operations, finance and administration, and awards management. The CDFI Fund is seeking to hire an individual to oversee these areas as its Deputy Director for Operations/Chief Financial Officer. In addition, the CDFI Fund plans to hire, among other professional and technical staff, the following in each of these areas: program operations—a program manager who will focus exclusively on the CDFI Program and possibly someone to manage the CDFI Fund's training and technical assistance initiatives; finance and administration—a comptroller as well as a staff accountant; awards management—an award administrator and possibly a portfolio analyst.

GOVERNMENT PERFORMANCE AND RESULTS ACT

*Question*. What are you doing to comply with the Government Performance and Results Act? What is your timetable to develop your goals, strategic plan, performance measures and outcomes?

Answer. In the implementation of GPRA, the CDFI Fund is ahead of schedule for compliance. Although the first annual performance plan is not due until fiscal year 1999, the CDFI Fund submitted its first plan as part of the fiscal year 1998 budget justification which included performance goals, measures and outcomes—a year ahead of schedule. It is the policy of the Department of the Treasury to integrate the annual performance plan with the annual budget justification.

In regards to the 5-year strategic plan, the CDFI Fund intends to have a final draft of the 5-year strategic plan in the coming weeks and looks forward to consultations with Congress and other stakeholders in developing a final plan. The CDFI Fund plans to submit its 5-year strategic plan to the Department and OMB in the near future. The CDFI Fund looks forward to utilizing this important tool to measure the impact and effectiveness of its programs.

CRITERIA FOR SELECTING CDFI'S

*Question.* The testimony indicates that a wide variety of CDFI's—new, old, rural, urban—have been awarded assistance under this program. What were the most critical criteria used for selecting CDFI's for assistance? What is the most common weakness in an application for denying CDFI assistance?

Answer. The key evaluation criteria used for selecting CDFI's for assistance include track record and financial strength; capacity, skills, and experience of the management team; quality of the applicant's business plan; ability to raise non-Federal matching funds; and community development impact. Attachment 8 discusses factors that tend to separate successful from unsuccessful applicants in the first funding round. Through the review process, the CDFI Fund found a wide variety of institutions working to serve the community development finance needs of their communities. These institutions are diverse in type (banks, credit unions, non-profit loan funds, microenterprise loan funds, venture capital organizations, lending consortia, and others), the types of communities they serve (urban, rural, Native American), the types of products and services they provide (small business loans and equity investments, housing loans, community facility loans, training and technical assistance, and others), and, finally, their strategies for promoting economic opportunity and revitalization.

What these organizations have in common, however, is a deep commitment to serve their communities by building stronger local markets and catalyzing new economic activity; leveraging resources of private, public and non-profit sectors; building linkages with the financial services industry; and developing viable, self-sustaining financial institutions.

Common problems shared by these institutions include: (1) difficulties in raising investment capital to support their activities because, in part, their returns may not be as high as some other private sector investment opportunities; and (2) the need to develop further their institutional capacity to expand their activities within the needy communities they serve. In evaluating applicants that were best poised to make the greatest community impact, the CDFI Fund observed several critical factors, including good management; the importance of strategic assessment and planning in charting an institution's activities; having sufficient net worth and a capital structure appropriate to the nature of the activities the institution is engaged in; the existence of well-functioning internal financial systems; and a solid portfolio review system for managing risk.

---

## ATTACHMENT 7

### PROFILES OF THE FIRST ROUND AWARDEES UNDER THE BANK ENTERPRISE AWARD PROGRAM

COMMUNITY IMPACT OF THE BANK ENTERPRISE AWARD PROGRAM

The Bank Enterprise Award Program (the "BEA Program") was designed to provide incentives to insured depository institutions (banks and thrifts) to invest in community development financial institutions (CDFI's) and to increase their lending and provision of financial services in economically distressed communities throughout the nation.

Awards are determined based on the increase of eligible activities between two designated six-month evaluation periods. To ensure appropriate use of limited Federal resources, awards are disbursed only after the activities proposed by the institutions have been completed. Collectively, the bank and thrift awardees have provided nearly $66 million in support to CDFI's and $60 million in new lending and financial services in economically distressed communities. The activities for which each of the institutions received an award are described in the following profiles.

There are no statutory or regulatory restrictions or requirements on institutions with respect to the use of their BEA award dollars after the completion of proposed activities. The CDFI Fund is happy to report that the vast majority of the institutions receiving awards in the first round have indicated that they plan to use their

awards to expand their existing community development work. These activities would enhance the impact of the BEA Program and are described in the profiles.

*Bank of America Community Development Bank, Walnut Creek, California*

Award: $1,585,510

*Rewarded activities*.—Bank of America Community Development Bank was awarded $1,585,510 for increasing its commercial real estate, multi-family housing, and business lending in distressed communities across California. The bank made nearly $25 million in loans in targeted neighborhoods. Bank of America Community Development Bank projects that its activities will generate more than 185 units of affordable housing and 300 jobs.

*Post award activity*.—Bank of America Community Development Bank, together with Bank of America, F.S.B., has pledged to invest its entire combined award back into the community. $1.1 million of their award money has been used to establish the Bank of America Leadership Academy, a nine-month program that provides training for senior management of community development organizations. The Leadership Academy is funded jointly by Bank of America Community Development Bank, Bank of America, F.S.B., and the Local Initiatives Support Corporation (a certified CDFI and a 1996 CDFI Program awardee); it is conducted by the Development Training Institute. The Academy is expected to run for three years and train 105 leaders of community organizations across the nation. An additional 20 percent of the combined awards will go to the Low Income Housing Fund, a certified CDFI and a 1996 CDFI Program awardee which provides loans for very low-income housing development across the country. Bank of America Community Development Bank is currently considering the designation of the balance of its award.

*Bank of America, F.S.B. Portland, Oregon*

Award: $521,735

*Rewarded activities*.—Bank of America, F.S.B. was awarded $521,735 for increasing its commercial real estate and business lending in targeted neighborhoods in Denver, Las Vegas, and San Antonio. The Bank made nearly $6.2 million in loans in needy communities. Bank of America, F.S.B. projects that this activity will create or retain more than 150 jobs.

*Post award activity*.—Bank of America, F.S.B., together with Bank of America Community Development Bank, has pledged to invest its entire combined award back into the community. $1.1 million of their award money has been used to establish the Bank of America Leadership Academy, a nine-month program that provides training for senior management of community development organizations. The Leadership Academy is funded jointly by Bank of America Community Development Bank, Bank of America, F.S.B., and the Local Initiatives Support Corporation, a certified CDFI and a 1996 CDFI Program awardee; it is conducted by the Development Training Institute. The Academy is expected to run for three years and train 105 leaders of community organizations across the nation. An additional 20 percent of the combined awards will go to the Low Income Housing Fund, a certified CDFI and a 1996 CDFI Program awardee which provides loans for very low-income housing development across the country. Bank of America, F.S.B. is currently considering the designation of the balance of its award.

*Bank of America, Illinois, Chicago, Illinois*

Award: $514,815

*Rewarded activities*.—Bank of America, Illinois was awarded $514,815 for increasing its affordable housing and small business lending activity in distressed communities on the near north, west and south sides of Chicago. The bank also made loans of nearly $3.7 million to Neighborhood Housing Services (NHS) of Chicago, Community Investment Corporation (CIC), and the Illinois Facilities Fund (IFF), all certified CDFI's. The bank's loan to NHS will be used to finance home improvement loans to low- and moderate-income homeowners in distressed neighborhoods. The loan to CIC will be used to finance multi-family apartment buildings in low- to moderate-income communities. The bank's loan to IFF will be used to support mortgages to non-profit social service agencies.

*Post award activity*.—Bank of America, Illinois is using $150,000 of its award to make grants to low- and moderate-income home-buyers for downpayment assistance. In addition, the bank made $155,000 in grants to NHS, CIC, and IFF, and the Southland Community Development Corporation, a new loan fund in the Chicago area. The bank has also made available a total of $75,000 in grants to smaller community organizations—in particular, those focused on affordable housing, economic development, and education of disadvantaged youth. The bank will also make available grants up to $500 to community organizations nominated by bank employees.

*Bank of Louisville, Louisville, Kentucky*

Award: $15,000

*Rewarded activities.*—Bank of Louisville was awarded $15,000 for making an equity investment of $100,000 in the Louisville Development Bancorp. The Louisville Development Bancorp is a newly-established community development bank corporation and a certified CDFI that seeks to revitalize the Louisville Enterprise Community and surrounding neighborhoods.

*Post award activity.*—Bank of Louisville plans to use its award to benefit the Louisville Development Bancorp in the form of a grant to its non-profit subsidiary.

*Central Bank of Kansas City, Kansas City, Missouri*

Award: $99,869

*Rewarded activities.*—Central Bank of Kansas City was awarded $99,869 for increasing its deposit-taking activities and consumer and commercial real estate, housing, and business loans in distressed neighborhoods. During the first six months of 1996, this bank provided more than $8.3 million in loans and services. In addition to facilitating neighborhood redevelopment through its single- and multi-family housing activities, the bank made a significant loan to help a major manufacturer and employer remain in the community.

*Post award activity.*—Central Bank of Kansas City is using its award to finance revitalization efforts in its neighborhood, which includes the distressed community designated in its BEA application. These efforts are focused on home improvement and rehabilitation lending. The award is, in part, being used to finance the rehabilitation of a former drug house in the neighborhood. The bank's $70,000 loan to a non-profit group at a concessionary interest rate accounts for 70 percent of the financing for this project. The bank expects to use the returns from this loan for other community development activities.

*The Chase Manhattan Bank, New York, New York*

Award: $2,699,625

*Rewarded activities.*—The Chase Manhattan Bank was awarded $2,699,625 for making nearly $18 million in investments in 14 organizations that finance community development. The organizations receiving assistance are Low-Income Housing Fund, Greater Jamaica Local Development Company, Community Loan Fund of New Jersey, Capital District Community Loan Fund, Nonprofit Facilities Fund, Leviticus 25:23 Alternative Fund, Bethex Federal Credit Union, Lower East Side People's Federal Credit Union, New Community Federal Credit Union, Homesteaders Federal Credit Union, BHA Residents Community Development Federal Credit Union, Central Brooklyn Federal Credit Union, Parodneck Foundation, and Enterprise Social Investment Corporation.

*Post award activity.*—The Chase Manhattan Bank is using its award to make grants to CDFI's in its service area through its CDFI Support Program. These grants can be used for capital and operating expenses and to serve as matching funds for CDFI's applying to the CDFI Program.

*Citibank F.S.B. California Marketplace, San Francisco, California*

Award: $412,270

*Rewarded activities.*—Citibank F.S.B. California Marketplace was awarded $412,270 for increasing its multi-family housing lending in a distressed neighborhood by more than $5.1 million. Citibank's efforts focused on financing two multi-family projects in Los Angeles developed by FAME Housing Development Corporation, a non-profit affiliate of the First African Methodist Church. Citibank also provided technical assistance to FAME Housing in structuring these transactions.

*Post award activity.*—Citibank F.S.B. has established a loan pool with its award. This pool will loan funds at concessionary terms to community organizations for initiatives such as affordable housing and childcare centers in low-income communities.

*Citibank N.A., New York, New York*

Award: $227,250

*Rewarded activities.*—Citibank N.A. was awarded $227,250 for providing investments totaling $1,515,000 to 13 organizations serving distressed communities throughout the United States. The organizations receiving investments are ACCION New York, ACCION Texas, Chicago Community Loan Fund, FINCA, Florida Community Loan Fund, Illinois Facilities Fund, Institute for Community Economics, Leviticus 25:23 Alternative Fund, Low-Income Housing Fund, McAuley Institute, New Jersey Community Loan Fund, Nonprofit Facilities Fund, Northern California Community Loan Fund, Washington Area Community Investment Fund, and the National Federation of Community Development Credit Unions.

*Post award activity*.—Citibank N.A. is using its award for activities that help build the capacity and skills of CDFI's. Among these activities is a grant to the National Association of Community Development Loan Funds to launch a series of courses for CDFI staff and board members.

*City National Bank of New Jersey, Newark, New Jersey*

Award: $162,065

*Rewarded activities*.—City National Bank of New Jersey was awarded $162,065 for increasing its lending commitments in distressed neighborhoods by nearly $2 million. In the first six months of 1996, the bank committed loans totaling $3,367,000 to consumers and for commercial real estate, single-family housing, multi-family housing, and small businesses. City National Bank of New Jersey is a minority-owned national bank.

*Post award activity*.—City National Bank of New Jersey has not yet determined the use of its award. Currently, City National Bank of New Jersey is applying in the second round of the BEA Program for its increased loans for the purchase and renovation of one- to four-family homes.

*Coast Federal Bank, West Hills, California*

Award: $149,709

*Rewarded activities*.—Coast Federal Bank was awarded $149,709 for providing loans, grants, and technical assistance to the Clearinghouse CDFI and Los Angeles Neighborhood Housing Services. These CDFI's both promote the development of affordable housing in distressed neighborhoods throughout Southern California.

*Post award activity*.—Coast Federal Bank is using its award as a reserve fund for affordable housing loans and is further supporting affordable housing in Southern California through its close relationships with the Clearinghouse CDFI and Los Angeles Neighborhood Housing Services. Bank officials serve on the governing board of each of the CDFI's; the bank has helped in fundraising and has made operating grants and in-kind contributions to each. Additionally, the bank is encouraging other financial institutions to support CDFI's by disseminating information about the BEA Program.

*Cole Taylor Bank, Wheeling, Illinois*

Award: $115,500

*Rewarded activities*.—Cole Taylor Bank was awarded $115,500 for making $1,050,000 in loans to the Illinois Facilities Fund (IFF) and Chicago Community Loan Fund (CCLF), both certified CDFI's. IFF makes real estate loans to non-profit social service agencies. The proceeds from Cole Taylor Bank's loan to IFF will be used to finance projects in Chicago's near west and lower west sides and Humbolt Park. CCLF finances affordable housing and economic development projects.

*Post award activity*.—Cole Taylor Bank's award has acted as an encouragement of further community development activities. The bank is currently contributing toward Neighborhood Housing Services of Chicago's goal of opening 20 new offices in the city. Specifically, Cole Taylor Bank is supporting the office in the Back of the Yards neighborhood by providing operational support, participating in a revolving loan fund for flexible and low-cost home improvement financing, and developing a new affordable homes construction project.

*Community Capital Bank, Brooklyn, New York*

Award: $215,461

*Rewarded activities*.—Community Capital Bank provides business, housing, and commercial loans to projects in distressed communities throughout New York City. In the first six months of 1996, Community Capital Bank provided nearly $2.6 million in loans for small business development and affordable housing construction and support for entrepreneurial development initiatives among public housing residents. Community Capital Bank was awarded $215,461 for increasing its lending activities during this period.

*Post award activity*.—Community Capital Bank, a certified CDFI, is using its award to increase its capacity to make loans in distressed communities. Activities toward this end include increasing loan staff and improving accounting controls with the assistance of an outside consultant. In addition, the award has helped the bank maintain its preferential interest rates on loans made to non-profit organizations.

*First National Bank of Chicago, Chicago, Illinois*

Award: $322,230

*Rewarded activities*.—First National Bank of Chicago was awarded $322,230 for making a $1,998,200 investment in The Shorebank Corporation (Shorebank) and a

$150,000 capital grant to Neighborhood Housing Services (NHS) of Chicago, both certified CDFI's. Shorebank, based in Chicago's south side, is a bank holding company that serves numerous distressed communities. First National's investment enabled Shorebank to acquire Indecorp and expand its service area to nine new neighborhoods in the south and mid-south sides of Chicago. The grant to NHS of Chicago will serve as a capital infusion for its revolving loan fund to support home improvement and rehabilitation loans and loans to people unable to obtain traditional mortgage financing.

*Post award activity*.—First National Bank of Chicago will use $150,000 of its award to make "equity-equivalent" investments in the Chicago Community Loan Fund and the Chicago Association of Neighborhood Development Organizations' Self-Employment Loan Fund, both certified CDFI's. The bank expects that these investments will leverage an additional $300,000 for the community groups.

*First Union National Bank of D.C., Washington, District of Columbia*

Award: $274,550

*Rewarded activities*.—First Union National Bank of D.C. (First Union) was awarded $274,550 for increasing its multi-family housing lending in several distressed neighborhoods. In partnership with local community development corporations, the bank made loans totaling more than $5.6 million, including financing a 177-unit apartment building.

*Post award activity*.—First Union plans to use a portion of its award to make a loan to a local CDFI. This loan will be unusual for First Union but, because of the availability of the BEA award, will be feasible at an interest rate favorable to the CDFI. Through the CDFI, loan funds will be made available to other community groups for predevelopment costs.

*Fullerton Savings and Loan Association, Fullerton, California*

Award: $39,600

*Rewarded activities*.—Fullerton Savings and Loan Association (Fullerton) was awarded $39,600 for increasing its single-family and multi-family housing lending in three distressed communities. Fullerton made a total of $520,000 in loans to neighborhoods located in Santa Ana and elsewhere in Orange County.

*Post award activity*.—Fullerton used its award to make a grant to a local housing development non-profit organization. The grant will be used for the operating costs of developing affordable single-family infill housing in Anaheim. It will also be used, if needed, to provide second mortgages for the new housing.

*Gateway National Bank of St. Louis, St. Louis, Missouri*

Award: $26,038

*Rewarded activities*.—Gateway National Bank, the only minority-owned bank to be incorporated and operated in the state of Missouri, was awarded $78,116 for increasing its deposit-taking and lending activities during the first six months of 1996. Gateway National Bank is located and serves neighborhoods in the northern portion of St. Louis.

*Post award activity*.—Gateway National Bank has used its award to expand its capital base to meet community needs, including business and housing lending.

*Great Financial Bank, Louisville, Kentucky*

Award: $22,500

*Rewarded activities*.—Great Financial Bank was awarded $22,500 for making an equity investment of $150,000 in the Louisville Development Bancorp. The Louisville Development Bancorp is a newly established community development bank corporation that seeks to revitalize the Louisville Enterprise Community and surrounding neighborhoods.

*Post award activity*.—Great Financial Bank has used its award to benefit the Louisville Development Bancorp in the form of a grant to its non-profit subsidiary.

*Hibernia National Bank, New Orleans, Louisiana*

Award: $5,875

*Rewarded activities*.—In late 1995, Hibernia National Bank (Hibernia) adopted two neighborhoods as part of the City of New Orleans' Impact Neighborhood Program. Hibernia was awarded $5,875 for increasing its small business lending, loans to non-profit organizations engaging in affordable housing activities, and technical assistance activities in these neighborhoods during the first six months of 1996. As part of this effort, Hibernia provided financial support to three non-profit organizations that conduct home-buyer training programs for residents of these targeted neighborhoods.

*Post award activity*.—Hibernia has made its award available to five community development corporations to use as matching funds for a grant program sponsored by the Federal Home Loan Bank of Dallas. The $500 to $2,200 grants made by Hibernia will be leveraged up to a total of $29,900 for non-profit organizations in Baton Rouge, New Orleans, and Shreveport focused on affordable housing and homebuyer training.

*Household Bank, f.s.b., Wood Dale, Illinois*

Award: $88,090

*Rewarded activities*.—Household Bank, f.s.b. was awarded $88,090 for making a $588,000 investment in Sable Bancshares, a certified CDFI. The investment enabled Sable Bancshares to acquire the Community Bank of Lawndale, an African American-owned bank which serves distressed neighborhoods in Chicago, for the purpose of converting it into a community development bank. Sable Bancshares has also established a subsidiary, REG Community Development Corporation, to promote housing and business development.

*Post award activity*.—Household Bank, f.s.b. plans to use its award for community development purposes. The use of the award is currently being determined through a strategic planning process.

*Key Bank of Maine, Portland, Maine*

Award: $37,500

*Rewarded activities*.—Key Bank of Maine (Key Bank) was awarded $37,500 for making a $250,000 investment in Coastal Ventures Limited Partnership (CVLP), a subsidiary of Coastal Enterprises, Inc., a certified CDFI. The bank's investment will create jobs by providing venture capital to small businesses for start-up and expansion.

*Post award activity*.—Key Bank plans to use its entire award for community development purposes. Part of the award is being used to support a Small Business Information Center in Lewiston, Maine in partnership with the U.S. Small Business Administration. An additional part is being used to capitalize an affordable housing loan pool in conjunction with other lenders.

*National City Bank of Columbus, Columbus, Ohio*

Award: $275,000

*Rewarded activities*.—National City Bank of Columbus (National City) was awarded $275,000 for providing a $2.5 million line of credit to the Columbus Growth Fund, a certified CDFI, to be used to provide gap financing for businesses. This financing will enable businesses to expand and create jobs for residents of targeted neighborhoods. National City was the lead bank in a partnership with four other financial institutions to establish the Columbus Growth Fund. The City of Columbus is also supporting the effort by capitalizing a loan loss reserve for the Columbus Growth Fund.

*Post award activity*.—National City has used its award to make a grant to the Columbus Growth Fund. The grant serves as additional equity for the Columbus Growth Fund, allowing it to leverage additional funds in the form of bank loans.

*National City Bank of Kentucky, Louisville, Kentucky*

Award: $37,500

*Rewarded activities*.—National City Bank of Kentucky was awarded $37,500 for making an equity investment of $250,000 in the Louisville Development Bancorp, a certified CDFI. The Louisville Development Bancorp is a newly established community development bank corporation that seeks to revitalize the Louisville Enterprise Community and surrounding neighborhoods.

*Post award activity*.—National City Bank of Kentucky has used its award to benefit the Louisville Development Bancorp in the form of a grant to its non-profit subsidiary.

*Nationsbank, N.A., Charlotte, North Carolina*

Award: $1,614,690

*Rewarded activities*.—Nationsbank, N.A. was awarded $1,614,690 for making nearly $10.5 million in investments in the National Community Investment Fund (NCIF) and the Enterprise Social Investment Corporation (ESIC) and a $420,000 loan to the Low-income Housing Fund (LIHF). NCIF will use its support to invest in community development banks. The ESIC investment will expand and improve employment opportunities by encouraging investments in businesses that employ residents of the Baltimore Empowerment Zone. LIHF, a certified CDFI funded in the first round of the CDFI Program, will use its loan proceeds to finance non-profit sponsors of affordable housing.

*Post award activity*.—Nationsbank, N.A. is using its award to expand its existing community development programs throughout the franchise in 16 states and the District of Columbia. These activities include using funds to purchase and demolish a low-rise apartment building in Atlanta's Martin Luther King Historic District so that affordable, single-family homes can be constructed to complete the revitalization of the block. It will also be used to establish community development activities in new markets including St. Louis, Missouri and Tampa/St. Petersburg, Florida and to subsidize below-market rate lending to CDFI's.

*Nationsbank, N.A. (South), Atlanta, Georgia*

Award: $1,199,275

*Rewarded activities*.—Nationsbank, N.A. (South) was awarded $1,199,275 for making $7.8 million in investments in the National Community Investment Fund (NCIF) and the Enterprise Social Investment Corporation (ESIC) and a $312,000 loan to the Low-Income Housing Fund (LIHF). NCIF will use its support to invest in community development banks. The ESIC investment will expand and improve employment opportunities through encouraging investments in businesses that employ residents of the Baltimore Empowerment Zone. LIHF, a certified CDFI funded in the first round of the CDFI Program, will use its loan proceeds to finance nonprofit sponsors of affordable housing.

*Post award activity*.—Nationsbank, N.A. (South) is using its award to expand its existing community development programs throughout the franchise in 16 states and the District of Columbia. These activities include using funds to purchase and demolish a low-rise apartment building in Atlanta's Martin Luther King Historic District so that affordable, single-family homes can be constructed to complete the revitalization of the block. It will also be used to establish community development activities in new markets including St. Louis, Missouri and Tampa/St. Petersburg, Florida and to subsidize below-market rate lending to CDFI's.

*Nationsbank of Texas, N.A., Dallas, Texas*

Award: $1,036,035

*Rewarded activities*.—Nationsbank of Texas, N.A. was awarded $1,036,035 for making $6.7 million in investments to the National Community Investment Fund (NCIF) and the Enterprise Social Investment Corporation (ESIC) and a $270,000 loan to the Low-Income Housing Fund (LIHF). NCIF will use its support to invest in community development banks. The ESIC investment will expand and improve employment opportunities through encouraging investments in businesses that employ residents of the Baltimore Empowerment Zone. LIHF, a certified CDFI funded in the first round of the CDFI Program, will use its loan proceeds to finance nonprofit sponsors of affordable housing.

*Post award activity*.—Nationsbank of Texas, N.A. is using its award to expand its existing community development programs throughout the franchise in 16 states and the District of Columbia. These activities include using funds to purchase and demolish a low-rise apartment building in Atlanta's Martin Luther King Historic District so that affordable, single-family homes can be constructed to complete the revitalization of the block. It will also be used to establish community development activities in new markets including St. Louis, Missouri and Tampa/St. Petersburg, Florida and to subsidize below-market rate lending to CDFI's.

*North Shore Bank, Brookfield, Wisconsin*

Award: $6,036

*Rewarded activities*.—North Shore Bank was awarded $6,036 for increasing its single-family housing acquisition and rehabilitation loans in distressed neighborhoods in central Milwaukee. During the first six months of 1996, the bank made a total of $373,000 in loans for activities undertaken as part of the Milwaukee Affordable Housing Initiative.

*Post award activity*.—North Shore Bank plans to use its award to assist low-income first-time home-buyers in its distressed community. It will do this through grants to help with downpayments and closing costs or by helping new homeowners purchase needed equipment to maintain their homes. Additionally, the bank has continued its support of the Milwaukee Affordable Housing Initiative and has shown further commitment to the central city through the completion of a new, full-service office on King Drive.

*Northern Trust Company, Chicago, Illinois*

Award: $88,090

*Rewarded activities*.—Northern Trust Company was awarded $93,713 for making a $624,750 investment in Sable Bancshares. The investment by Northern Trust Company enabled Sable Bancshares to acquire the Community Bank of Lawndale,

an African American-owned bank which serves distressed neighborhoods in Chicago, for the purpose of converting it into a community development bank. Sable Bancshares has also established a subsidiary, REG Community Development Corporation, to promote housing and business development.

*Post award activity*.—Northern Trust Company has committed its award as part of a package of support to Neighborhood Housing Services of Chicago, a certified CDFI, to open a new office in the Auburn-Gresham neighborhood. Northern Trust Company's support includes a $3.5 million loan, $1.5 million in subordinated debt, and a three-year $150,000 grant to help meet the operating costs of the office. The new office will focus on renovating single-family homes in this neighborhood in transition.

*Northwest Bank, Oklahoma City, Oklahoma*

Award: $3,918

*Rewarded activities*.—Northwest Bank was awarded $3,918 for providing operating grants totaling $35,618 to Neighborhood Housing Services (NHS) of Oklahoma City. NHS of Oklahoma City, a certified CDFI, promotes homeownership in targeted neighborhoods through assistance with downpayments, closing costs, and other administrative expenses.

*Post award activity*.—Northwest Bank is using its award to fund community development activities through its Near Northwest Community Development Corporation. The bank participates in community development activities in Oklahoma City through partnerships with the city and local organizations. The bank is also lending in the Paseo area, a historic district with a large number of small multi-family housing units.

*Norwest Bank, New Mexico, Albuquerque, New Mexico*

Award: $5,750

*Rewarded activities*.—Norwest Bank, New Mexico was awarded $5,750 for making a $50,000 loan and a $5,000 capital grant to the New Mexico Community Development Loan Fund (NMCDLF). Through its partnership with the bank, NMCDLF will make loans to small businesses and microentrepreneurs.

*Post award activity*.—Norwest Bank has provided its award dollars as a grant to NMCDLF for small and micro-business lending.

*PNC Bank, Kentucky, Inc., Louisville, Kentucky*

Award: $75,000

*Rewarded activities*.—PNC Bank, Kentucky, Inc. was awarded $75,000 for making an equity investment of $500,000 in the Louisville Development Bancorp. The Louisville Development Bancorp, a certified CDFI, is a newly established community development bank corporation that seeks to revitalize the Louisville Enterprise Community and surrounding neighborhoods.

*Post award activity*.—PNC Bank, Kentucky, Inc. donated its award to the LCDB Enterprise Group, a non-profit affiliate of the Louisville Community Development Bancorp. The grant will help fund a business center to assist new and emerging small businesses in western Louisville.

*Regency Savings Bank, F.S.B., Naperville, Illinois*

Award: $77,250

*Rewarded activities*.—Regency Savings Bank, F.S.B. was awarded $77,250 for making a $515,000 equity investment in The Shorebank Corporation (Shorebank). Shorebank is a bank holding company, a certified CDFI, that serves numerous distressed communities and is based on the south side of Chicago. The bank's investment enabled Shorebank to acquire Indecorp and expand its service area to nine new neighborhoods in the south and mid-south sides of Chicago.

*Post award activity*.—Regency Savings Bank, F.S.B. has used its award to partially offset its equity investment in Shorebank.

*Republic National Bank of New York, New York, New York*

Award: $519,659

*Rewarded activities*.—Republic National Bank of New York (Republic) was awarded $519,659 for providing loans and operating grants totaling $5,196,592 to 21 community development organizations. The institutions assisted include Bethex Federal Credit Union, Central Brooklyn Federal Credit Union, Corporation for Supportive Housing, Greater Jamaica Local Development Company, Homesteaders Federal Credit Union, Leviticus 25:23 Alternative Fund, Local Initiatives Support Corporation, Lower East Side Peoples Federal Credit Union, Nonprofit Facilities Fund, Parodneck Foundation, Union Settlement Federal Credit Union, Washington

Heights Inwood Development Corporation, Enterprise Foundation, and Upper Manhattan Community Development Credit Union.

*Post award activity.*—Republic will use its award to leverage an additional $5 million in economic development and small business lending in low- and moderate-income communities. In this way, its BEA award will be leveraged nearly 10 times over in the form of new lending. The award dollars will be used to provide below market rates or act as a loan loss reserve for loans Republic will make to non-profit economic development organizations over the next few years.

*St. Francis Bank, F.S.B., Milwaukee, Wisconsin*

Award: $11,498

*Rewarded activities.*—St. Francis Bank, F.S.B. was awarded $11,498 for increasing its single-family housing acquisition and rehabilitation loans in distressed neighborhoods of central city Milwaukee. During the first six months of 1996, the bank made a total of $675,000 in loans for activities undertaken as part of the Milwaukee Affordable Housing Initiative.

*Post award activity.*—St. Francis Bank, F.S.B. has used its award to expand its community lending efforts, including outreach to the Milwaukee area's Spanish-speaking residents. These efforts include developing new programs, marketing, and offering home-buyer seminars.

*Stock Yards Bank & Trust Company, Louisville, Kentucky*

Award: $3,750

*Rewarded activities.*—Stock Yards Bank & Trust Company was awarded $3,750 for making an equity investment of $25,000 in the Louisville Development Bancorp. The Louisville Development Bancorp is a newly established community development bank corporation, a certified CDFI, that seeks to revitalize the Louisville Enterprise Community and surrounding neighborhoods.

*Post award activity.*—Stock Yards Bank & Trust Company donated its award to the LCDB Enterprise Group, the non-profit affiliate of the Louisville Community Development Bancorp. The grant will help fund a business center to assist new and emerging small businesses in western Louisville.

*Troy Savings Bank, Troy, New York*

Award: $389,859

*Rewarded activities.*—The Troy Savings Bank was awarded $389,859 for increasing its lending within distressed neighborhoods of Troy, Albany, and Schenectady by $4.8 million. In the first six months of 1996, the bank made over $8 million in loans for housing, small businesses, and consumer products. The bank's efforts also included grants and technical assistance to support first-time home-buyers in the region.

*Post award activity.*—Troy Savings Bank has created a Small Business Investment Company (SBIC), whose license is currently pending with the U.S. Small Business Administration, to foster the growth of small businesses in the capital region. Through the SBIC, the bank will set aside $500,000, capitalized in part with its BEA award, for investment in businesses that agree to locate in the distressed communities designated in the bank's BEA application. Additionally, the bank is active in promoting affordable housing in its service area; it is one of the first institutions to participate in the Federal Home Loan Bank of New York's First Home Club Program, which provides funds to match the savings of low-income prospective home-buyers.

*Vine Street Trust Company, Lexington, Kentucky*

Award: $55,000

*Rewarded activities.*—Vine Street Trust Company was awarded $55,000 for making a $500,000 loan to Community Ventures Corporation (CVC) to serve Lexington's highest poverty area. Vine Street Trust Company and CVC will serve this area by focusing on helping low-income people access financing for affordable housing.

*Post award activity.*—Vine Street Trust Company has decided to pass the award on to CVC to serve as a loan loss reserve and to cover a portion of CVC's operating overhead expenses.

*Wells Fargo Bank of Texas, N.A. (formerly First Interstate Bank of Texas), Houston, Texas*

Award: $97,500

*Rewarded activities.*—Wells Fargo Bank of Texas, N.A. was awarded $97,500 for making investments totaling $650,000 in the Southern Dallas Development Corporation and the Greater Houston Small Business Equity Fund, Inc. Both of these

certified CDFI's provide financing and technical assistance to small and minority-owned businesses.

*Post award activity*.—Wells Fargo Bank of Texas, N.A. has not yet determined how it will use its award. The bank's community development activities include support to organizations in communities in which they do business, including Alliance Capital of Houston, Austin Community Development Corporation, Dallas Inner City Development Corporation, and Fort Worth Community Development Corporation. The bank has also supported the Local Initiatives Support Corporation's National Equity Fund.

---

## ATTACHMENT 8

### FIRST ROUND EXPERIENCE—ISSUES THAT OFTEN SEPARATED COMPETITIVE FROM NON-COMPETITIVE APPLICATIONS

*Track Record, Financial Strength and Current Operations*

Is there a pattern of positive net operating income?
Is net worth as percentage of assets reasonable in context of institution's activities?
Are delinquency rates under control, in the context of type of lending?
Are loss rates under control, in the context of type of lending?
What is the fund raising track record?
Does the organization have a good process for strategic assessment and planning?
Is there a periodic portfolio review, with risk rating?
Does organization consistently generate monthly internal financials?
Are audit opinions clean, or are they qualified?
Is there demonstrable track record of development impacts?
Is there a track record of innovation in the marketplace?

*Capacity, Skills and Experience of Management Team*

What is the track record of accomplishment of individual management team members?
What is the relationship of skills and experience to tasks of business plan?
Is appropriate staff identified for new activities?
Is there an appropriate mix of skills?
How well do management team members work with each other?
Is staff adequate or is it stretched too thin?
Is there an appropriate compensation structure for attracting and retaining needed staff?
What is the level of personal commitments of management team members?
What is the contribution of Board?
Are relationships between staff end Board effective?
What is the track record and capacity of management team members to adapt to change?

*Quality of Business plan*

Is the business plan clear, well developed and internally consistent?
What is the quality of market analysis?
Is there clarity about future products and services?
Is development strategy well thought out?
Are there appropriate links between products/services, market analysis, and development strategy?
Are future staffing plans adequate, with respect to number and skill level?
Is there appropriate meshing between lending and technical assistance?
Is pricing strategy well thought out?
Is process and criteria for evaluating deals appropriate?
Is risk appropriately included in evaluation?
Is there a reasonable balance between financial and social objectives?
Are projections reasonable or too aggressive?
Are assumptions for projections clearly delineated?
Are loss assumptions reasonable?
Are future staffing needs appropriately reflected in projections?
Do financial projections reconcile?
Are projections consistent with business plan narrative?
Do realistic projections show ongoing viability?
Is plan viable if performance varies from projections?
Is proposed capital structure appropriate?
If consultant is used, is use appropriate?

*Matching Funds*

Are commitments in hand, or if not, is there a viable fund raising strategy?

Are matching funds comparable in form and value to financial assistance requested?

Is business plan dependent on unrealistic match?

Does prior fund raising track record provide confidence about prospects for securing match?

*Community Development Impact as Return on CDFI Fund Investment*

Are community development objectives well defined and clearly focused?

Is there clarity on how CDFI Fund can enhance impact?

Is there a realistic plan to sustain impact of CDFI Fund investment?

What is the prospective leverage of other resources?

What is the scale of activity?

What are prospects for innovation?

What is the level of distress of target market, and are products suitable to address needs?

Is institution well connected to community?

What does track record, management, business plan quality suggest about development impact?

What is the "bang for the buck?"

## NATIONAL CREDIT UNION ADMINISTRATION

**STATEMENTS OF NORMAN E. D'AMOURS, CHAIRMAN**

## NEIGHBORHOOD REINVESTMENT CORPORATION

**STATEMENT OF GEORGE KNIGHT, EXECUTIVE DIRECTOR**

**ACCOMPANIED BY MARY LEE WIDENER, PRESIDENT, NEIGHBORHOOD HOUSING SERVICES OF AMERICA, INC.**

### OPENING REMARKS

Senator BOND. Our third panel, Mr. Norm D'Amours, Chairman of the National Credit Union Administration, and Mr. George Knight, Executive Director of the Neighborhood Reinvestment Corporation. As we all know, NCUA is responsible for chartering and regulating Federal credit unions, itself funded through an operating fee. Second, Mr. Knight will testify on the administration's budget request for Neighborhood Reinvestment Corporation for a flat funding of $50 million, these funding not-for-profits known as NeighborWorks® Network. They have a long track record and have become a good model of how the Federal Government can spend a small amount of money and reap tremendous benefits. As the written testimony so well demonstrates, $38.7 million in fiscal year 1996 allowed the Neighborhood Reinvestment and NeighborWorks® to leverage $420 million in affordable housing investments.

I look forward to the testimony. Mr. D'Amours.

### STATEMENT OF NORMAN E. D'AMOURS

Mr. D'AMOURS. Thank you, Chairman Bond and Senator Mikulski. Thanks for the opportunity to present our request today for funding limits on the NCUA's central liquidity facility, called the CLF, at current levels. As you know, the CLF is a liquidity source for credit unions. It is funded by its members, and can borrow from the Federal financing bank, even though no such borrowing has occurred in the last year.

For fiscal year 1998 we request a $600 million limit on new loans, and a $203,000 limit on administrative expenditures. The requested loan limit has remained constant for 17 years. It should be noted that NCUA is not requesting an appropriation for the CLF, merely a limit on its borrowings.

I am pleased to report to the subcommittee that we continue to streamline the CLF. The result is cost savings for Federal credit unions.

Our expenses in fiscal year 1996 of $346,000 were significantly less than our budget limitation of $546,000. The fiscal year 1996 expenses are more than 50 percent below the CLF expenses of $767,000 for fiscal year 1993. All of CLF's net income in 1996 was

returned to member credit unions in the form of capital stock dividends.

In our estimation, the $600 million loan limit we are requesting is adequate to address unexpected liquidity needs in what is a very healthy and viable credit union system today. The request is less than 3.55 percent of the limit set by statute, which is 12 times paid in oncall capital or an amount of approximately $17 billion. The borrowing authority is not used to build up loan volumes, because by statute the proceeds from CLF cannot be used to expand credit union loan portfolios. Rather, these funds are advanced strictly to support the purposes stated in the Federal Credit Union Act, and in response to circumstances dictated by market events.

Loan demand over the years has resulted in wide variances in the amount of outstanding CLF loan balances and individual advances. The relatively low utilization of our total authority can be viewed as a positive sign of credit unions' present financial condition. By the end of 1996, all loans were repaid and no direct loans were outstanding. However, because of a liquidity shortage involving one of the corporate credit unions, the CLF became an active liquidity center from December 1994 through February 1995. In that time, we made 601 loans totaling $389 million. The majority, 509 of them, were overnight loans.

As intended by Congress, the CLF acted successfully to provide liquidity and to maintain financial stability during a temporary liquidity shortage.

Mr. Chairman, Senator Mikulski, we respectfully request that you support our authorization request in order to continue the NCUA's and CLF's ability to respond to such adverse liquidity situations. And that completes my oral statement. I would ask that my full statement be included in the record.

Senator BOND. Without objection, it will be made part of the record.

[The statement follows:]

PREPARED STATEMENT OF NORMAN E. D'AMOURS

Mr. Chairman and Subcommittee Members. I want to thank you for the opportunity to present our request for funding limits on the NCUA Central Liquidity Facility (CLF) at current levels. Appearing with me today are Herbert S. Yolles, President, Central Liquidity Facility; Robert M. Fenner, General Counsel; David Marquis, Director of our Office of Examination and Insurance; and William C. Poling, our Budget Officer. Mr. Chairman, as you know, the CLF is a liquidity source for credit unions. It is funded by its members and can borrow from the Federal Financing Bank, even though no such borrowing has occurred in the past year.

For fiscal year 1998, we request a $600 million limit on new loans and a $203,000 limit on administrative expenditures. The requested loan limit has remained constant for the last 17 years. It should be noted that NCUA is not requesting an appropriation for the CLF, merely limits.

I am pleased to report to the subcommittee that we continue to streamline the CLF. The result is cost savings for credit unions. Our expenses in fiscal year 1996 of $346,000 were significantly less than our budget limitation of $546,000. The fiscal year 1996 expenses are more than 50 percent below the CLF expenses of $767,000 for fiscal year 1993. All of CLF's net income in 1996 was returned to member credit unions in the form of capital stock dividends.

In our estimation, the $600 million loan limit is adequate to address unexpected liquidity needs in credit unions. The request is less than 3.55 percent of the limit set by statute—12 times paid-in and on-call capital or $17 billion. The borrowing authority is not used to build up loan volumes because by statute the proceeds from CLF loans cannot be used to expand credit union loan portfolios. Rather, the funds

are advanced strictly to support the purposes stated in the Federal Credit Union Act and in response to circumstances dictated by market events.

Loan demand over the years has resulted in wide variances in the amount of outstanding CLF loan balances and individual advances. The relatively low utilization of our total authority can be viewed as a positive sign of credit unions' present financial condition. By the end of 1996, all loans were repaid and no direct loans were outstanding. However, because of a liquidity shortage involving one of the corporate credit unions, the CLF became an active liquidity lender from December 1994 through February 1995. The CLF made 601 loans totaling $389.8 million; the majority (509) were overnight loans.

As intended by Congress, the CLF acted successfully to provide liquidity and maintain financial stability during a temporary liquidity shortage. Mr. Chairman, we respectively request that you support our authorization request in order to continue the NCUA's and CLF's ability to respond to such adverse liquidity situations.

Mr. Chairman and members of the subcommittee, the credit union movement continues to focus on its mission of involving more people in America's free enterprise economy. By instilling habits of thrift and teaching the value and workings of financial discipline, credit unions are still fulfilling the mandate Congress gave them over 60 years ago. At NCUA, our strong commitment to the future of credit unions serving people of limited means remains as resolute as when I last reported to the subcommittee.

For fiscal year 1997, the subcommittee approved a $1 million appropriation to be utilized by the Community Development Revolving Loan Program (CDRLP), which NCUA has administered since 1987. By any objective standard, the CDRLP has been an overwhelming success and deserving of continued Congressional support. A $2 million authorization, the last of a four year $10 million authorization (Public Law 103–325), remains for fiscal year 1998.

Since NCUA began making loans from an original $6 million appropriation (now a $7 million total), we have revolved $14.4 million in 113 separate loans to 79 low-income credit unions. In 1996 alone we approved $2.9 million in loans and currently we have 6 loan applications for $1.4 million in funding.

The credit unions use these loans for a variety of different purposes from housing rehabilitation and consumer loans to micro-enterprise lending. We expect loan demand to increase smartly as the year proceeds. We have had one loss in the Revolving Loan Program for $35,000.

At mid-year 1996 we recognized 298 low-income credit unions, which translated to a 27 percent annualized growth rate. I am proud to say that 13 newly state and federally chartered credit unions in 1996 gained the low-income designation. Total assets in these financial cooperatives are $1.8 billion at mid-year 1996 and loan growth was 13.2 percent. The capital ratio is a strong 11.1 percent and loan delinquencies (loans 60 days and more overdue) are within reasonable bounds at 2 percent.

In May 1994, the NCUA adopted a new chartering and field of membership manual for credit unions replacing our previous version. These changes are set forth in Interpretive Ruling and Policy Statement (IRPS) 94–1 that became effective in July 1994. Changes contained in IRPS 94–1 allow greater flexibility for credit unions wishing to expand into low-income areas and make it easier for low-income credit unions (LICU's) to expand their fields of membership and associate themselves with other credit unions.

This initiative has been one of the more important actions taken by the Board to encourage larger, healthy credit unions to directly reach out into low-income communities to give residents a non-profit alternative to pawn shops, check cashing outlets and the like. In this way people are brought into the mainstream of the U.S. economy in a self empowering and responsible manner.

From July 1994 until October 1996 NCUA had granted 73 federal credit unions permission to open branches in these distressed neighborhoods and make their services available to a potential of 1.4 million low-income residents. However, following a decision from the U.S. Court of Appeals for the District of Columbia and then an injunction from the District Court, NCUA has had to halt this innovative approach for providing low cost financial services to those who need it the most.

The ability of credit unions to add low-income groups to their field of membership arises from an interpretation of the Federal Credit Union Act NCUA made in 1982 to allow more than one group with each group having a common bond be part of a credit union. The banks have successfully challenged this interpretation of the Act and we are currently waiting to see if the Supreme Court will take up an appeal.

As I will testify before the Financial Institutions Subcommittee of the House Banking Committee tomorrow, NCUA believes Congress should not wait for the Supreme Court to rule, but change the Federal Credit Union Act to allow initiatives,

like the one described above, to move forward. In doing so, Congress will also codify two essential purposes, or rather benefits, of the 1982 policy change: (1) by permitting diversity within the membership of federal credit unions, the policy provides a strong measure of protection against difficult economic conditions that affect particular groups, industries or the reality of military downsizing with the abatement of the cold war; and (2) it makes credit union service available to individuals who otherwise do not have access to it, such as members of groups too small to run and support a viable credit union on their own.

The NCUA Board continues to explore ways to bolster low-income credit unions. Early last year, the Board voted unanimously to adopt a new interim rule permitting LICU's to immediately accept secondary capital funds from institutional investors. The additional capital will be used to support increased lending and services and provide additional "matching funds" for credit unions applying for assistance from the Community Development Financial Institutions Fund (Public Law 103–325).

The rule includes safety and soundness measures to ensure that depositors and participating credit unions are aware of the nature and risk associated with these accounts. For instance, the secondary capital is not insured by the federal government and this fact must be disclosed to investors.

In September 1996, the NCUA Board adopted a change to our Rules and Regulations that removed the current cap of $120,000 for technical assistance, which is drawn from the earnings of the Revolving Loan Fund to aid LICU's. The Board believes that technical assistance is a vital component of the Revolving Loan Program and since 1992 we have disbursed 216 technical assistance grants totaling some $500,000.

I am particularly proud of the credit union movement coming together for a conference held last August in Chicago. The gathering, known among credit unions as the "Serving the Underserved" conference, was dedicated to bringing together credit unions of all sizes to learn how to break down the barriers keeping people from becoming a part of the American, free enterprise system. The conference was a tremendous success.

Mr. Chairman, I want to briefly update you on the overall condition of our nation's credit unions and their federal insurance fund. Overall, the credit union industry continues to be in excellent health.

The National Credit Union Share Insurance Fund (NCUSIF) had its best operating year in its 26-year history during 1996. For the second consecutive year (and the third year in its history), the Fund paid credit unions a dividend on their 1 percent deposit into the Fund. The equity level at October 1996 exceeded the statutory ceiling of 1.3 percent or $1.30 per $100 in insured shares (deposits), so NCUA returned a dividend totaling $102.8 million to federally insured credit unions. We returned a $103.9 million dividend during 1995.

Meanwhile, the number of problem credit unions (CAMEL supervisory rating 4 or 5) has continued to decline each year from 1,022 in 1988 to a record low 286 at yearend 1996. Deposits in these problem credit unions represented just 0.67 percent of total insured deposits in 1996, compared to 6 percent of the total in 1988.

The number of credit union failures during 1996 fell to a record low for the third consecutive year, dropping to 19, and requiring the Fund to payout $2.3 million, also a record low. The previous lows were 22 failures in 1995, requiring $11 million in member payouts.

Since Congress established federal share insurance for credit unions, the insurance fund has never had a losing year. Moreover, since credit unions voluntarily recapitalized their insurance fund in 1985, its equity level has ranged between 1.25 to 1.30 percent. The current level is 1.28 percent, and we are projecting that it will again climb to 1.30 percent by yearend 1997.

During 1996, federally insured credit unions performed admirably by all objective standards. The yearend 1996 call report data have just arrived at the agency and the preliminary data show that total industry assets at the 11,429 federally insured credit unions rose 6.9 percent to $327 billion. Capital accumulated at the rate of 11.1 percent during 1996, the tenth consecutive year of strong capital growth. The ratio of capital to assets of federally-insured credit unions, now averaging 11.4 percent of assets, is at a record-high level; net capital is 10.8 percent—the former minus allowance for loan losses.

Loan delinquency and net charge-offs remain very low, actually at or near historic lows. The delinquency rate is 1 percent of total loans, while net charge-offs are 0.5 percent. Profitability, as evaluated by the return on average assets ratio, was a healthy 1.1 percent for last year. This gauge of profitability has remained unchanged over the last year; and the loan-to-share ratio now stands at 74.6 percent compared to 71.1 percent at yearend 1995.

In general, corporate credit unions (which act as bankers' banks to the 12,000 natural-person credit unions) are also in good health. The risk in their investment portfolios that concerned us two years ago when I last appeared before this panel has been reduced significantly. Between September 30, 1994, and September 30, 1996, corporate credit unions' total holdings of Collateralized Mortgage Obligations declined from $10.2 billion to $4.7 billion.

There are currently 41 corporate credit unions, of which 36 are federally insured. While capital in corporate credit unions remains low compared to that in natural person credit unions, there has been an increasing trend toward capital accumulation, perhaps in anticipation of new proposed standards the NCUA Board plans to finalize in the near future. The ratio of reserves and undivided earnings to assets grew from 2.1 percent as of December 31, 1994, to 2.65 percent as of December 31, 1996. During that same period, total capital to assets rose from 4.9 percent to 7.38 percent.

Meanwhile, our "conflict of interest" regulation took effect in January 1996. This rule eliminated any real or perceived inappropriateness in the relationship between the boards of directors at corporate credit unions and their state and national trade associations. I believe that significant progress has been made in the condition of corporate credit unions, and that proposed revisions to the corporate credit union regulation will provide additional improvements.

Mr. Chairman, thank you again, for the opportunity to appear before this subcommittee and present our requests for the Central Liquidity Facility. I would be pleased to answer any questions.

## STATEMENT OF GEORGE KNIGHT

Senator BOND. We thank you for the good news request, the success and the no need for appropriations.

Let me turn to another good news story: Mr. Knight.

Mr. KNIGHT. Thank you.

Mr. Chairman and members of the committee, I want to especially thank you for last year's appropriation. As you noted in 1996, the $38.7 million that you appropriated was leveraged, in part, into $420 million, directly impacting the lives of 16,000 families. Of those, 4,400 were new homeowners, having the opportunity to start an equity stake not only in their homes, but also in their families' lives, their neighborhoods, and their cities.

In the past I have talked a great deal about the neighborhood revitalization work of the NeighborWorks® network. During the past year we have focused on looking at who else benefits, and we looked particularly beyond the resident-borrower to the block on which they live, the lender, the insurer, and the city government, with a real focus on the local tax base impact. I am pleased to report we also found that the city treasurer benefits as well. As property values rise, the tax base strengthens, and so do tax revenues.

## LESSONS LEARNED

Looking at what we have learned in the past 20 years, I wanted to summarize it for you in several quick points. First, raising the amounts of social investment capital currently needed by our secondary market, Neighborhood Housing Services of America—and I am delighted to have Mary Lee Widener, the president of that unique institution here with me—is challenging. We are now operating at volumes of $20 million to $30 million a year. We need social investments that are low-market rate, but perceived as high risk—even though we have never missed a payment in 20 years. The effort to raise that capital is indeed prodigious.

Second, after only 4 years of the NeighborWorks® Campaign for Home Ownership we have reached the 5-year goal of 10,000 new

homeowners. But I think more importantly, we have shown that lower-income families not only can, but want to be homeowners. While the portfolio is still early on those first 8,300 owners for which we have delinquency records, the delinquency reports are coming in looking quite normal, if you will.

Third, NeighborWorks® organizations do extend credit. It is an essential strategy in revitalizing a neighborhood. But they also are involved in a wide ranging number of social-service activities. And those activities are equally important to revitalizing a neighborhood.

Fourth, training is terribly important, and the demand is tremendous. In 1993, the total of participants at the four neighborhood reinvestment training institutes totaled approximately 1,300 participants. In 1996, we had almost 2,600 participants. Last week in Atlanta we had 750 participants alone.

EFFICIENCY MEASURES

Fifth and finally, my board, Neighborhood Reinvestment's board, recently asked if we were being efficient with the Federal resources we are given. We looked at three issues. The first was were we continuing to meet the mission between 1990 and 1996? We could have become more efficient by serving higher income people. However, we held the income level of the people served by NeighborWorks® organizations about the same. So we met the mission test.

Senator MIKULSKI. What is that income level?

Mr. KNIGHT. It ranged from around 56 percent to 66 percent of median family income. That translates into the low $20,000 for a family. Since many of the families we serve are single heads of household, that really represents a very considerable strain if you have a poor educational background to make $20,000 to $22,000 a year. That requires a $10 or $11 or $12 an-hour job.

Second, we looked at the leverage of the appropriation over the past 6 years, and indeed the private dollars leveraged have increased. I am pleased to report it has almost doubled from 1990 to 1996.

Third, we inquired into the secondary market: Were they able to handle and manage more aggregate assets for each dollar that we gave them in 1996 than in 1990? And again, the answer was yes, and I think a great deal of credit goes to Mary Lee, and to her marvelous board of trustees and the day-to-day operating board for that achievement.

With that, I look forward to your questions.

[The statement follows:]

PREPARED STATEMENT OF GEORGE KNIGHT

Mr. Chairman and Members of the Committee, thank you for the support you have given the NeighborWorks® network and the Neighborhood Reinvestment Corporation. I am pleased to present the Corporation's request for fiscal year 1998 for $50 million. We are especially grateful for the fiscal year 1997 appropriation of $49.9 million.

In fiscal year 1996, the $38.7 million you granted Neighborhood Reinvestment and the NeighborWorks® network leveraged $420 million in investment. This is a 17 percent increase over the previous year. The network produced almost 16,000 total units of housing, in addition to owning 11,000 units of affordable Mutual and rental housing. Of the 16,000 families, more than 4,400 families became new home-

owners, earning an equity stake in their neighborhoods. The security of owning a well-insured home and the pride in paying back the loan creates a sense of ownership and control over the quality of the community. This frequently leads to action in solving the "front-door" issues of crime, cleanup, education and other quality-of-life concerns.

A national system for community revitalization that focuses on addressing the disinvestment and decline in the nation's urban, suburban and rural communities has been built over the last 20 years. Currently, we are serving more than 420 communities. The heart of this system is the 172 local partnerships of residents, members of the private sector, and public officials that constitute the NeighborWorks® network.

These NeighborWorks® organizations utilize the full range of community development tools to positively engage the social, economic and real-estate dynamics of their communities. Their mission is focused on turning communities once shunned into neighborhoods of choice for the benefit of current residents. This isn't about demographic change; this is about engaging lower-income families in the mainstream economy and engaging the mainstream financial mechanisms—of lenders, insurance firms and Wall Street—in lower-income communities.

NeighborWorks® organizations serve communities characterized by low household income—61 percent of median for African Americans, 66 percent for Hispanics. NeighborWorks® communities are also characterized by low rates of home ownership—only 44 percent compared to the national rate of 67 percent.

Who else beyond families and lenders and insurance firms benefit from this reinvestment activity? Local taxpayers benefit as neighborhood real-estate markets and, thus, tax bases strengthen. In Savannah, Georgia's Dixon Park neighborhood, the NeighborWorks® organization tackled a block with 23 properties, seven of which were severely dilapidated and unoccupied. After purchase, rehabilitation and sale to new homeowners, the 16 occupied properties now show tax assessment increases of over 65 percent. Needless to say, the seven previously dilapidated properties show a dramatically higher increase, with tax assessment increases averaging 337 percent. As a whole, tax assessments for all 23 properties on the block increased by 109 percent—from $777,000 to $1.6 million. Everyone benefitted. More dramatically, in declining markets such as New Haven, Connecticut, the NeighborWorks® neighborhood held its own in property values between 1990 and 1995, even as the city's fell 25 percent.

Beyond the resident owner, the city treasurer and lenders, the next generation of families in NeighborWorks® communities also benefits. The assets built by lower-income families who invest in home ownership are a key ingredient for their future success. Children who grow up with a stable place to live have improved educational achievement,[1] and when the time comes for college, the inter-generational asset transfer mechanism of a home equity loan is available for tuition.

Does this always happen? No. It can easily be derailed by local organizational failure, local economic collapse and a host of other external macro reasons. Our experience, however, is that a difference can be made and measured.

How do we sustain and increase this? Neighborhood Reinvestment's role is fourfold:

(1) To work with organizations that meet basic programmatic and financial health thresholds to expand their capacity;

(2) To offer intense nuts-and-bolts training to the housing and community development field;

(3) To support Neighborhood Housing Services of America, Inc. (NHSA) with low-cost capital so that it remains a strong financial backstop to the NeighborWorks® system. This enables every responsible homeowner or would-be homeowner—no matter how poor—to borrow the necessary resources to maintain or secure a safe home; and,

(4) To monitor each local NeighborWorks® organization for continued responsible financial and programmatic results.

What hampers vastly greater impact?

For local NeighborWorks® organizations, the main impediment is insufficient amounts of: (1) Flexible, low-cost, equity capital; and, (2) Funds to put loan counselors, rehab specialists and community intervention specialists on the streets.

For Neighborhood Housing Services of America, the ongoing struggle is to create and extend multi-year social-investor incentives and mechanisms that will assure vastly greater sums of low-market-priced capital.

What have we learned?

---

[1] Richard Green and Michael White, *Measuring the Benefits of Homeowning: Effects on Children*, cited in "Housing Policy Debate," Volume 7, 1996.

(1) First, that raising social-investment capital for NHSA—especially in the volumes now needed—is difficult. The low market financial return combined with a perceived high risk, even though NHSA has never missed a payment, results in laborious capital-raising strategies. I'd be remiss to not thank the Trustee and Board leadership of NHSA for their incredible success in raising more than $250 million in investment funds.

(2) Lower-income families want to be homeowners—and can be. Four years ago I informed you that a group of NeighborWorks® organizations were setting out to create 10,000 new homeowners, resulting in investment of $650 million in the subsequent five years. But when the tally is finalized at the end of four years, the five-year goal already will have been met: 10,100 new homeowners backed by at least $625 million invested in their homes and neighborhoods. More importantly, the 30–60–90 day delinquency rate is 4.70 percent, compared to about 3 percent for the conventional markets and 6-to-7 percent for government loans.

(3) Social service activities—reducing crime, providing alternative recreation and learning opportunities, cleaning up streets and vacant lots, enforcing building and health codes—all help to create confidence in the neighborhood as a place of choice. These "front-door" issues, when addressed, lead to spontaneous sociability so that the ill neighbor is cared for and not ignored, so that doors are knocked on for block celebrations, so that the local school is supported.

(4) Training works and is in tremendous demand. Three years ago the four Training Institutes attracted 1,268 participants for 31,696 contact hours. In fiscal year 1996 that had increased approximately 105 percent for participants (2,595) and 85 percent for contact hours (58,606).

(5) Financially and most importantly, this work is being done efficiently with federal resources. Our board of directors requested a report on multi-year efficiency. Balancing many factors, three measures were utilized (charts follow):

—The first is the mission test: Over five years, has the NeighborWorks® system continued to serve lower-income families? The answer is yes: median incomes were 58 percent in 1990 and rose slightly to 66 percent by 1996, primarily because of an increased emphasis on recruiting new homeowners into these distressed communities.

—The second efficiency test measured the total investments by NeighborWorks® organizations against the Congressional appropriation. That grew from a 5:1 ratio in 1990 to a 9:1 ratio in 1995. And the investment ratio measures only the real-estate-related parts of a NeighborWorks® organization's efforts: it ignores local social-service activities and does not directly capture our training efforts. Overall, the amount of private-sector investment leveraged by public-sector investment has increased steadily since 1993.

—The third efficiency test looked at NHSA in terms of total assets managed compared to operating costs. That also nearly doubled from 1990 to 1995.

We are grateful for your support and energetically look forward to a successful completion of 1997 and continued opportunities in 1998. I look forward to your questions.

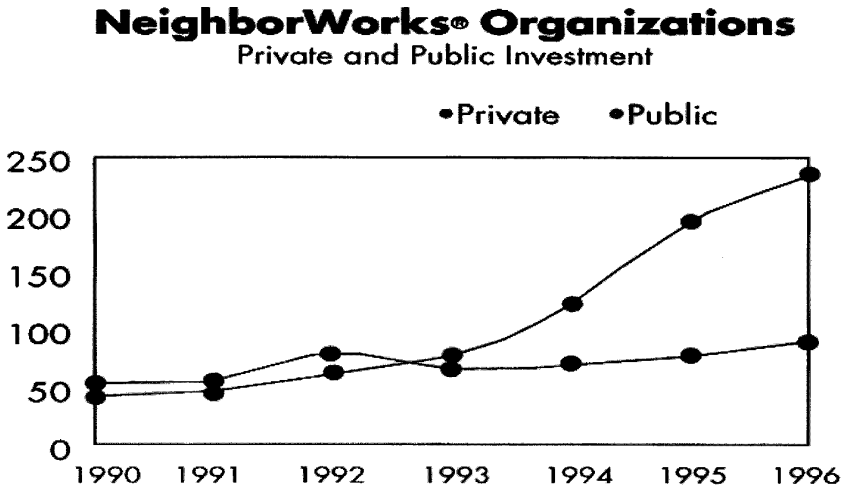
*NHSA's Total Assets vs. Neighborhood Reinvestments's Administrative Grant to NHSA*

| | *Dollars:Ratio* |
|---|---|
| 1990 | 27.7:1 |
| 1991 | 26.4:1 |
| 1992 | 29.9:1 |
| 1993 | 35.8:1 |
| 1994 | 33.3:1 |
| 1995 | 45.9:1 |
| 1996 | 48.6:1 |

*NeighborWorks®* ORGANIZATIONS TOTAL INVESTMENT VS. NEIGHBORHOOD REINVESTMENT'S APPROPRIATION

| | *Dollars:Ratio* |
|---|---|
| 1990 | 5.3:1 |
| 1991 | 5.8:1 |
| 1992 | 6.4:1 |
| 1993 | 7.4:1 |
| 1994 | 8.5:1 |
| 1995 | 9.2:1 |

| | Dollars:Ratio |
|---|---|
| 1996 | 10.8:1 |




*NHSA's Clients Median Household Income—As a Percentage of National Median Household Income*

[1996 National Median=$35,200]

| | Percentage |
|---|---|
| 1990 | 58 |
| 1991 | 59 |
| 1992 | 60 |
| 1993 | 62 |
| 1994 | 61 |
| 1995 | 65 |
| 1996 | 66 |

Senator BOND. Thank you very much, Mr. Knight.

I will turn to my ranking member, Senator Mikulski, for her questions.

Senator MIKULSKI. Senator Bond is being very generous to let me go first. I have to leave for a leadership meeting, and I really will have some written questions for you, Mr. D'Amours, and again, welcome. We were colleagues on merchant marine and fisheries and oceanography in another life.

Mr. D'AMOURS. Thank you, Senator. It is good to see you.

Senator MIKULSKI. I would like to go directly to the Neighborhood Reinvestment Corporation. Mr. Knight and your staff, you know I have been a big fan of Neighborhood Reinvestment, and in my stewardship worked to see it move ahead. As it moved ahead, I became concerned about a couple of things. One, could your institution keep its entrepreneurial approach in place to meet the needs of communities, and then second, could you avoid becoming a comfort or complacency zone because you were successful.

Now, what I would like to do is use southeast Baltimore as an example. Tell me how Neighborhood Reinvestment continues to follow the same mission, of entrepreneurship in working with local community leaders? Could you tell me what are the three goals for

your involvement in the southeast Baltimore project? What measures are you using to determine whether you are successful or not?

GOALS FOR SOUTHERN BALTIMORE

Mr. KNIGHT. Our three goals are somewhat simpler to state than they are to achieve in a short period of time. The first is to strengthen home ownership; that is, to increase the percentage of home ownership in southeast Baltimore. We can look at two kinds of measures, process and absolute change. We can look at the process measures of how many new homeowners, such as the 50 new homeowners since last June, as well as what kind of funds we have available. USAA has put forward funds, in addition to many, many local institutions in Baltimore at a rate of about 6.5 percent. The long-term measurement, however, will come over time, and we have a database in place to start tracking the absolute change in ownership.

Second, stabilize the community. This includes a wide range of activities to increase the confidence of individuals in the neighborhood. Among the actions to date has been to create a large coalition of organizations tackling a wide range of things. For example, encouraging local institutions to help finance their employees to purchase homes in the neighborhood, rewarding homeowners for purchasing in a neighborhood by providing scholarships to the local school, working with realtors to promote the neighborhoods and to cleanup and fix-up kinds of things. Again, the measurement over time will be the absolute change in market value.

Third, to decrease, significantly decrease, the number of specific eyesore properties. At this point there are almost 100 properties individually identified. We have, through one of our partners there, begun to prioritize legal action. A number of individual buildings have been purchased and are under construction. We are seeking funds to purchase more buildings. The absolute measurement will be the decrease in the number of eyesores.

I think on all three measures, frankly, from my perspective we will know first from the residents whether they think it is going well or not.

HOPE VI IN BALTIMORE

Senator MIKULSKI. Well, Mr. Knight, I am interested in what was the Neighborhood Reinvestment Corporation or the Neighborhood Housing Services of Baltimore's intervention. Just for the committee, southeast Baltimore is a wonderful community. I represented it as a city councilwoman, and it faced two converging influences, one by problems created by sheer demography, meaning a population aging in place, and also undergoing both an economic and ethnic change. But, second, it was steadily and gradually moving from primarily a European ethnic community to a multiethnic, multiracial community, and very nicely.

Then, along came a HOPE VI project in Baltimore called Lafayette, and when the public housing came down, the Public Housing Authority did not stand sentry. They simply dumped everybody from public housing into this area with no screening for section 8 assistance, and, therefore, the very role of Government became a significant and forceful aspect of destabilization. Section 8, because

of its inappropriate use, was also a tool for destabilization. And you had neighborhood organizations going through heartbreak, and also deinvesting and also leaving the community.

Am I right in summarizing that?

Mr. KNIGHT. Absolutely correct.

Senator MIKULSKI. And the city took no action to correct itself, yet the community organizations were being quite gallant in trying to fortify the neighborhood.

Now, it was our suggestion that Neighborhood Reinvestment Corporation come in to deal with this. Could you just very briefly say how you have stopped the destabilization? What organizations from Neighborhood Reinvestment stopped the destabilization, and what community organizations have you worked with, and what were your methods?

This was a very melancholy situation in Baltimore, Mr. Chairman, when the very program that I helped create called HOPE VI had become a destabilizing tool for one of the neighborhoods that I had represented—a neighborhood that had moved very gracefully and effectively toward racial integration.

Mr. KNIGHT. The organizations including the NeighborWorks® organization, the Baltimore Neighborhood Housing Services, to the Able Foundation, Johns Hopkins, a series of community based CDC's, such as east Fayette, SDI, a whole series of smaller property-owning or would-be property-owning organizations, have formed a loose coalition in which each continues their activity but becomes identified under a unifying visual umbrella, if you will, called Southeast Partners at Work. Working together has really helped to focus broader attention on this southeast revitalization initiative.

Senator MIKULSKI. Did you create that?

Mr. KNIGHT. It certainly was an idea that came up in the meetings in southeast Baltimore that we convened, yes. We really see our role as the catalyst to get those kinds of activities moving forward.

Mary Lee has managed to raise several million dollars in low-market rate interest money that has enabled a number of stalled construction projects to plunge forward with rapidity. We have also succeeded in raising some first mortgage money, again through the secondary market, at a rate of 6.5 percent, that is enabling a very attractive incentive, if you will, to those who would move into the neighborhood as homeowners.

Senator MIKULSKI. Well, I know my time is up.

I also understand you have been working with local realtors in the private sector. But as I understand it, then the major force from Neighborhood Reinvestment to pull together different groups and help these groups empower themselves by being a loose federation or coalition, was Neighborhood Housing Services. Is that not the major tool?

Mr. KNIGHT. Neighborhood Housing Services of Baltimore, yes, is the major point, around which local organizations were convened to take the action. Neighborhood Reinvestment staff's role is to convene groups, just as we did on the Navajo Reservation to start a new organization on the Navajo Nation.

Senator MIKULSKI. Well, we could elaborate. I want you to know I continue to be a great supporter of Neighborhood Reinvestment Corporation. Going through this hopefully was informative for the chair, because it really shows how Government itself is both a tool and also a problem. And Neighborhood Reinvestment Corporation came in and worked with what was already there, and organized it in a way that began to stabilize it. There are lots of interesting stories, including men organizing midnight barbecues. You know, we had drug dealers, so instead of midnight basketball, the men of the community just would go out on weekends and barbecue. They would have friendship and fellowship and push those drug dealers off the streets.

Mr. KNIGHT. Thank you for your support.

Senator BOND. Thank you, Madam Chair. I would be far more interested in a midnight barbecue than midnight basketball. I have gotten past the age when basketball is that appealing to me.

THE HOME PROGRAM

Senator BOND. Mr. Knight, would you not say that your model really is one that should be a model for every community in administering the HOME Program? Is this not a test case for what we would hope that local governments would be doing with the flexibility we are giving them. It seems to me you are bringing it all together.

Mr. KNIGHT. We would hope so, and that is why we spend so much effort training others to share these techniques, with people from a wide variety of backgrounds. Our training events bring together representatives of the public sector, private sector, community based groups, and church groups to learn from each other. We think this approach is far more effective than vastly larger sums of money that would be spent.

Senator BOND. Do not worry about the vastly larger sums of money. To the extent that we get any money, it has already been claimed.

Have you worked with communities? Are there people from local housing authorities or appropriate community development people from areas which do not have a NeighborWorks® Program coming in to see what you are doing?

Mr. KNIGHT. Yes; absolutely.

Senator BOND. Are you able to train these people and show them what you are doing works?

NAVAJO PARTNERSHIP FOR HOUSING

Mr. KNIGHT. Yes; we have just completed a little more than ½ year's work with the Navajo Nation, creating the Navajo Partnership for Housing. It will, we hope, over the next several years lead to the production of 10,000 units of moderate housing on tribal lands, which is desperately needed. It is a partnership composed of many local financial institutions, several national institutions, including Fannie Mae Federal Home Loan Bank of Seattle, Zion National Bank, Northwest, and many local institutions and the nation, itself. Residents of several of their subgroupings—chapters, as they refer to it inside the nation—created an environment in which people could talk, work, and come to local solutions themselves.

RURAL HOUSING CONCERNS

Senator BOND. Outside of the native American Nation, I am very much concerned about some of the problems we have in rural areas, and Missouri has a lot of these. I do not know if you have the same problems in Maryland.

Senator MIKULSKI. Yes.

Senator BOND. But rural housing needs are very challenging in many parts of Missouri. What is Neighborhood Reinvestment's experience in rural areas? Do you see the problems and the solutions differing, and any special approaches for addressing unique needs of affordable housing and community development? The chicken and egg problem, do you need the jobs first or the housing? Can you get the jobs without the housing, can you get the housing without the jobs? That is something that community and the town I live in is facing, and it has been a tough one.

Mr. KNIGHT. Sometimes it's a chicken and egg problem—and some of our responsibility, I believe—is to step forward and take the risk. In Colorado, in the intermountain area, we are affiliated with an organization called Colorado Rural Housing Development Corp., that works in smaller towns to basically create subdivisions.

Now, that may be a glorified term for a group of 10 houses that are built, but someone has to assemble the land, get the infrastructure in, and at that point, with either local or statewide is financial backing, a contractor will come in and build those 10 homes, particularly if that organization is working with individuals who will purchase the homes. Once this process starts it gives confidence to smaller industries and/or employers to say now that there is housing, we will invest in this community.

I just returned from Dimmit County, TX, which is about as rural as one can get. It is one of the poorest counties in the Nation, and they are doing exactly this and meeting with great success. Frankly, it may help one of their last private employers there, because now they will be able to purchase—this is not a giveaway—purchase a home that would meet the contemporary living standards of Eagle Pass, the next nearest town.

Senator BOND. We will be interested to find out about that experience.

CDFI

I will address a question to you and Mr. D'Amours. Just before you testified, we heard about a new idea, the CDFI, and based on your experience, what kind of direction, guidance would you give to CDFI? What kind of pitfalls do you think they ought to be aware of?

Mr. KNIGHT. Our experience is in working with NeighborWorks® organizations which make basically the nonconventional, uneconomic loan. Our tandem lending approach and small rehabilitation loans allow the private-sector loan to work. The NeighborWorks® loan gets paid back, but its small size and low return makes it not feasible for a financial institution.

We think there is a great need for these niche kinds of lending efforts. There is really at this point insufficient capital to do them. We do as much as we can.

I think the ability of a secondary market like NHSA is frankly part of the genius in helping a local rural area. Rural organizations may be able to raise a pot of money once, but it is awfully hard the second time. If they can make loans and sell those loans, then they have funds to keep lending and reselling. Frankly, the innovation of the secondary market, has made a great deal of our success possible.

Senator BOND. Thank you, Mr. Knight.

Mr. D'Amours, I know that the NCUA administers a $7 million community development revolving loan program not unlike the CDFI. I wonder if you have any words of wisdom or suggestions on how the CDFI can be achieved, and how is the program working in your area?

Mr. D'AMOURS. Thank you, Senator. As a matter of fact, the community development revolving loan program was passed in 1979. I was on the House Banking Committee when we approved that.

The CDFI bill, or the Riegle bill, so-called at the time, when he was chair of the Senate Banking Committee——

Senator BOND. And that is a good way to get your name on a bill.

Mr. D'AMOURS [continuing]. Passed in 1994. Right. That is a good way to become internalized.

The recommendations I would have, frankly, without having any real authority to make them, but since you have asked, would be to simplify the application procedure. We know, for instance, out of the 268, I believe Mr. Hawke testified, transactions last year, 50 of them were credit unions and only a small handful received anything.

At NCUA, we operate the community development revolving loan program very simply. The application is simple. It is only available to the low-income credit unions. These are credit unions 60 percent of which are below $10 million, a near majority of which are below $2 million.

Our administrative costs at NCUA are nil. We administer this program as an agency program. We absorb whatever administrative costs, which are not very high, are connected with it. In the credit union situation the money gets right down to the people who need it most. It is done as a loan, not as a grant. Money of the CDFI programs are grants for credit unions rather than loans. Our money is repaid. We use the interest of that money for technical assistance aid to credit unions.

I think probably in my experience, I know that a lot of the credit unions which could really make use, small, low-income credit unions which are in the inner city or in that isolated rural area that you are concerned about, Senator, are not applying for CDFI moneys because the application process is a little too complex, a little too complicated for their very, very limited resources.

SUPREME COURT DECISION ON CREDIT UNIONS

Senator BOND. I appreciate your views on that.

As I indicated, we congratulate you on the situation you find yourself in, that the insurance fund had its best operating year in its 26-year history, and the number of problem credit unions has continued to decline, and they show strong capital growth.

As we noted, the Supreme Court granted certiorari yesterday on the U.S. Court of Appeals decision. What do you see the impact on credit unions being should the Supreme Court uphold the court of appeals decision?

Mr. D'AMOURS. The impact over the long term would be very, very serious, if not devastating, depending upon how the district court ultimately would implement the court's decision.

There is a partial stay in existence as to the district courts, Judge Jackson's injunction, which allows credit unions to continue serving those members they now have even though those members may share a single common bond.

That injunction could conceivably and logically under the original court decision of the U.S. Circuit Court of Appeals be expanded so that they cannot serve even extant members. That would be absolutely devastating.

But even if that does not occur, Senator, over the long period of time, what I think most people forget when they look at credit unions is that whatever their size, whatever their location, there are people in that credit union serving disconnected groups, perhaps, in terms of common bond, each of these groups being unable on their own to form sufficient mass to operate a separate and distinct credit union.

These can be very low-income people, minimum-wage people, janitors, secretaries, part-time workers and the like, who would be deprived of credit union services, which are the only alternative these people have to the loan shark, the pawn shop, the rent-to-own store, and in some cases check-cashing operations.

So we are very hopeful that we will prevail in the Supreme Court, and if we do not, or even while we are in that process, that both the House and Senate would look very seriously at the financial empowerment that credit unions provide that will be lost unless this challenge to the credit union common bond system is handled properly.

Senator BOND. So you are saying the justification is that this is a necessary service that can be provided, this ability to go beyond what has traditionally been called a common association. I am a little sensitive of the term, common bond. [Laughter.]

But a common association is for low-income, disadvantaged individuals. This is a strong justification for that.

Mr. D'AMOURS. Absolutely. Common bond is nothing endemic to the definition of credit unions. It is something that happened topsyish as credit unions developed. It is not a part of the credit union definition. It is not necessary to achieve their purposes.

It is being used by some, trying to be used by some as a limiting factor. It was never intended in our view to be a limiting factor, and if this effort succeeds, the effort of credit unions and their ability to bring people into the American economic free enterprise system would be lost, because the banks are not going to do it unless they are required to under CRA, and only to the extent they are required to under CRA.

It would be shameful. It would be sad for America if this ability of the credit union financial system to reach out and empower people in isolated rural areas or in the inner city were lost.

MODERNIZATION OF FINANCIAL SERVICES

Senator BOND. As Congress and the banking leaders work toward a modernization of financial services, and they are going to address the Glass-Stiegle fire walls that is going to be in for revision, what do you see as the future role of credit unions?

Mr. D'AMOURS. I do not think the two are related whatsoever.

Senator BOND. There will not be any impact on the members you serve?

Mr. D'AMOURS. No, sir.

Senator BOND. If there are broadening and consolidating financial services through permitting securities firms to own banks and banks to own securities firms, if that comes about, there will not be any area in which the credit unions would wish to participate?

Mr. D'AMOURS. No, sir; credit unions are prohibited from investment in these kinds of areas from commercial investments, for the most part, from securities investments. Credit unions operate in an investment perspective within a narrow niche. Their job is to make loans, and we have been stressing that at NCUA.

Senator BOND. So you would not, from a credit union standpoint, if a larger financial institution wanted to set up a credit union to serve a target area of need, you would not see any justification for expanding existing authority to make that service available?

Mr. D'AMOURS. We would not want credit unions to start to get into the banking business, if that is what the question implies. Absolutely. Credit unions have their niche. They have filled that niche. They have been doing the job they were supposed to do very, very well. We do not want to be banks.

We would welcome banks if they wanted a credit union charter to do what credit unions do, but we have no ambition to take over their work.

ADDITIONAL COMMITTEE QUESTIONS

Senator BOND. Thank you very much, Mr. D'Amours.

Mr. Knight, we appreciate your testimony. We will leave the record open in case there are additional questions that members of the committee want to ask. Your full statements will be made a matter of record.

[The following questions were not asked at the hearing, but were submitted to the Administration for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR MIKULSKI

*Question*. What is the status of the Baltimore Progressive Federal Credit Union situation?

Answer. Baltimore Progressive Federal Credit Union was liquidated on January 30, 1997. Its members are now eligible to receive services from Citadel Federal Credit Union, which offers services less than one mile from Baltimore Progressive's location.

*Question*. What is the National Credit Union Administration doing in low income communities today?

Answer. I enclose our 1996 Yearend Report on Low-Income Credit Unions, which describes our efforts to expand financial services to low-income Americans, and respectfully request its inclusion in the hearing record.

*Question*.What is the potential impact of the pending case between the NCUA and the banking industry?

Answer. As you know, the Supreme Court is hearing arguments on October 6, 1997, on the case challenging NCUA's interpretation of the Federal Credit Union Act's field of membership provision. After the banks suffered a number of losses at various U.S. District Courts, the U.S. Court of Appeals for the District of Columbia, in July, 1996, reversed the District Court and determined that all members of an occupational credit union must share a single common bond. The Appeals Court remanded the case for implementation to the District Court. That Court enjoined NCUA and all federally chartered credit unions in the U.S. from enrolling new groups and new members from existing groups that did not share a common bond with the credit union's core (original) membership.

In December, the Appeals Court stayed an important part of the District Court's injunction. Federal credit unions, for now, can continue enrolling new members from existing membership groups with differing common bonds so long as those groups were affiliated prior to the District Court's October 25, 1996, injunction. However, federal credit unions remain barred from adding to their charters any new groups which do not share a common bond with their core group.

This (in our opinion) erroneous interpretation of the common bond provisions of the Federal Credit Union Act could severely limit the viability of a federal credit union whose membership includes the employees of one sponsor organization, if that organization downsizes, relocates or goes out of business. The limitation places these credit unions at an unnecessary risk occasioned by a downturn in a single industry or sector of the economy. The NCUA Board believes that Congress should act now to clarify the Federal Credit Union Act on the question of common bond and to obviate the negative safety and soundness implications of court actions crippling the ability of credit unions to serve different groups that each have a common bond.

Should the courts ultimately decide to force a complete roll-back of our 1982 policy by ordering credit unions to divest existing members from unrelated groups, the potential for substantial losses would be significant and immediate for some 3,586 federally insured credit unions serving 157,000 groups.

Many of these groups have fewer than the 500 potential members needed, as a minimum, to organize and maintain a viable credit union. Thus, millions of Americans would lose or be deprived of the financial services they have chosen or desire, financial services Congress has for 63 years directed NCUA and its predecessors to make available to them.

There are limited regulatory steps NCUA may be able to take in order to alleviate the problem for some credit unions. However, if the court's decision stands, only Congress can completely fix the problem.

Since small businesses, which are usually defined as having fewer than 500 employees (the critical mass needed for credit union viability), represent the largest and fastest growing segment of the United States economy, a significant portion of the workforce could be denied access to credit union services if the Court of Appeals decision is not reversed. Prohibiting small business employees from joining existing credit unions would hamper credit unions' efforts to meet their statutory mandate to provide financial services to low- and moderate-income workers.

According to Commerce Department data, the 6.18 million businesses in 1990 employed 93.48 million people. Of these 6.18 million businesses, 99 percent employed fewer than 500 employees (a total of 75 million people).

As we enter the 21st century, the changing nature of our national and world economies make it reasonable to expect continuous downsizings, mergers, and the complete elimination of companies and whole industries. Occupational credit unions remain extremely susceptible to these economic changes.

Federal credit unions have remained healthy and have grown because they invested substantial capital in achieving economic strength and diversity through the addition of select groups. Deprived of this option, even without the draconian order to divest existing groups, many credit unions over time will suffer unbearable losses and their members will lose needed services. Their liquidation or merger would significantly affect the federal insurance fund and the health of the entire industry.

The assets, shares and loans of the 3,586 multiple-group federal credit unions at year-end 1995 comprised a substantial portion of the industry's total:

*Assets*.—$150 billion (approximately 78 percent of $190 billion in total assets held by federal credit unions.)

*Loans*.—$94.6 billion (approximately 78 percent of $120.5 billion in total loans held by federal credit unions.)

*Shares*.—$132.8 billion (approximately 79 percent of $170.3 billion in total shares held by federal credit unions.)

These statistics illustrate the potentially devastating impact of preventing federal credit unions from continuing to add new groups or new members from existing select groups. As the remaining employees of existing select groups become older, they

borrow less and save more. Therefore, the inability of a credit union to add sufficient numbers of new members will dry up the pool of younger members who tend to borrow. The higher rates of income generated from loans will be reduced, making it difficult to maintain existing rates paid on savings. The result is an ultimately fatal asset-liability mismatch.

Moreover, in reliance on NCUA's 15-year multi-group field of membership policy, many federal credit unions have invested substantial sums to create an infrastructure to support select group expansion. Credit unions have spent millions of dollars on branch offices, data processing, personnel and other enhancements allowing credit unions to service the additional members of these groups. As people change jobs, move away, retire and die, and the credit union is prevented from adding additional members or groups, it will lose its ability to sustain the cost of these enhancements, adding yet more costs to an already deteriorating income stream.

We expect to win the Supreme Court case, but if the case comes out against us, we will continue to work for a legislative solution.

## SUBCOMMITTEE RECESS

Senator BOND. We appreciate your patience in waiting for us, and with that the hearing is recessed. Thank you.

[Whereupon, at 11:50 a.m., Thursday, February 25, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

# DEPARTMENTS OF VETERANS AFFAIRS AND HOUSING AND URBAN DEVELOPMENT AND INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1998

---

**TUESDAY, MARCH 4, 1997**

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, DC.*

The subcommittee met at 9:37 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Christopher S. Bond (chairman) presiding.

Present: Senators Bond, Burns, Stevens, Shelby, Campbell, Mikulski, and Boxer.

## CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

**STATEMENT OF HARRIS WOFFORD, CHIEF EXECUTIVE OFFICER**

**ACCOMPANIED BY DONNA CUNNINGHAME, CHIEF FINANCIAL OFFICER**

### OPENING STATEMENT OF CHRISTOPHER S. BOND

Senator BOND. Good morning. The VA, HUD, and Independent Agencies Subcommittee will come to order. This is the subcommittee's second hearing on the fiscal year 1998 budget and I welcome our witnesses and guests this morning. The Appropriations Committee and the VA-HUD Appropriations Subcommittee in particular will face another year of very, very difficult budget decisions as Congress continues to refocus its priorities and seeks to balance the budget of the Federal Government by the year 2002.

I emphasize our continuing need to stay focused on balancing the Federal budget, including the need to continue to be proactive in consolidating and reforming our many Federal programs, including many under this subcommittee's jurisdiction. We have done much over the last several years, but there is still much to be done.

The President's fiscal year 1998 budget in my view has not yet set forth a blueprint for fiscal responsibility, and without meaningful policy changes now the deficit will skyrocket by the year 2010, when many of the baby boomers begin to retire.

As it applies to the current year, the President's budget optimistically proposes some $92 billion in budget authority for the departments and agencies in the VA, HUD, and Independent Agencies Subcommittee, of which $72 billion is discretionary spending. The amount proposed represents an increase of approximately $8 billion

over the current year's level, and certainly we could spend all of that and more. There is no question that many of the activities that we have in this subcommittee are under great pressure.

I would love to have available the kinds of funds the President proposes. But given the very real problems elsewhere in the budget, the significant problems faced in the defense budget with the costs of our ongoing activities and Bosnia, Kuwait, and elsewhere, the fact that the deficit in the President's request actually goes up for the coming year, the fact that our FEMA moneys are proposed to be off budget when we fought so hard in the past couple of years to be responsible and include the emergency spending authority and outlays in the budget and account for them, I would say that it is very, very optimistic to think that we would have anything like the budget authority that the President has proposed under the congressional resolution.

I would say, therefore, absent some compelling reasons, it is going to be very difficult for this subcommittee as a practical matter to provide any increases over our 1997 budget levels. We will work to obtain as much authority as we can find, but I would have to say that this does not appear optimistic and does not appear promising at this point.

This morning we take testimony from five of the independent agencies under the subcommittee's jurisdiction: The Corporation for National and Community Service, the Court of Veterans Appeals, the American Battle Monuments Commission, the cemeterial expenses for the Army, and the Selective Service System. These are important programs and activities and I look forward to their testimony.

We will call as our first witness Mr. Harris Wofford, our former colleague, now Chief Executive Officer of the Corporation for National and Community Service. The administration's budget request for the Corporation for fiscal year 1998 totals some $546.5 million, an increase of $146 million or 36 percent from the Corporation's enacted appropriation for fiscal year 1997 of $400 million.

As we all know, the Corporation was established by the National and Community Service Trust Act of 1993 to provide opportunities for national and community service and to provide national service education awards. The Corporation makes grants by formula, competitive, and national direct, to States, institutions of higher education, public and private nonprofits and others to create service opportunities for a wide variety of individuals, such as students, out of school youth, and adults, through a variety of full time and part time national and community service programs.

National service participants may receive educational payment awards for higher education, vocational education, job training, or school to work programs.

The Corporation has many laudable and important goals, and certainly no one has been a stronger champion of these goals than my colleague, friend, and ranking member, the distinguished Senator from Maryland, Senator Mikulski. Nevertheless, there remain significant issues concerning the implementation of the program and the financial management of the controls that are being exercised.

First, funding of what is essentially still a new and unproven program at $546 plus million in fiscal year 1998 is problematic, especially when the Congress, as I said, is confronting the budget deficit, especially when the subcommittee may be short of adequate funds for a number of longstanding funding priorities, such as veterans medical care and the renewal of section 8 contracts for low-income families, including the elderly and the disabled.

In addition, there are some significant financial and management issues facing the Corporation. For example, the Corporation has submitted only one annual report, including one financial statement, and that report covered activities for fiscal year 1994. Moreover, as I understand it, the Corporation is currently unable to reconcile its financial accounts for fiscal years 1994, 1995, and 1996, to the degree that as of December 1996 some $38 million in AmeriCorps funding could not be accounted for.

If I am wrong in that supposition, I would be pleased to be corrected.

Finally, I have concerns about the mission of the Corporation and how it is being carried out. While the AmeriCorps Program has been touted as a program designed to help young people who perform public service pay for college, the program continues to have problems with the dropout rate in the program, the educational usage, and, most important, the final cost to the taxpayer of an educational award under the AmeriCorps Program.

For example, a recent February 1997 GAO study on the role of State commissions in implementing the AmeriCorps Program has raised several significant concerns for me. First, the overall rate for the programs reviewed under the GAO study indicates that the median dropout rate for the program participants was 39 percent. In other words, almost two out of every five participants in the program did not complete the program.

In addition, the GAO report identified a number of concerns in each of the individual programs reviewed. For example, in the Casa Verde Builders Program in Texas, at a cost of $2.5 million, 38 of the 64 participants, or 59 percent, ended the program early, with less than one-third of the participants earning an award and only 4 participants using an award. This means the program paid over $600,000 per education award.

Using these funds for Pell grants or some other kind of education assistance obviously could serve a far greater number of families and young people in paying for education. Moreover, in the Casa Verde Builders Program, even if all eligible participants used their educational award, it would still cost over $106,000 per person plus $4,725 for the educational award, for a total cost of over $110,000. This means, excluding private sector contributions, the taxpayer still would end up paying approximately $102,000 per educational award.

The bottom line is I am very much concerned the AmeriCorps Program is turning into another expensive jobs program, in which we are not getting any bang for our buck.

Finally, I know that the Corporation can tell some impressive success stories, heartwarming stories that are obviously worthwhile and show laudable achievements. Nevertheless, there are open issues and concerns that need to be addressed, and unfortunately the

Corporation does not have the tracking or accounting systems to demonstrate the successes and the failures of the Corporation.

Without these systems in place to assure the controls and to assure that there will be successes and that there will be accountability for taxpayers' dollars, I would find it difficult to support the increase in the investment requested.

I look forward to hearing the testimony of Mr. Wofford and I am optimistic that he can allay our concerns in many areas as we begin to address these questions.

Now it is my pleasure to turn to my ranking member for her comments. Senator Mikulski.

STATEMENT OF BARBARA MIKULSKI

Senator MIKULSKI. Thank you very much, Mr. Chairman. Good morning to both you and also to two members of this subcommittee, dear colleagues from the House, Senator Ben Nighthorse Campbell and Senator Barbara Boxer. We welcome them and their participation.

I want to extend my welcome to our former colleague Senator Wofford, the Chief Executive of the Corporation for National Service, and welcome the other witnesses who will be testifying today.

I know this morning we are going to have three panels to deal with five agencies, and I will address the agencies related to the Department of Defense later during their questioning. But we do want to give a most cordial welcome to General Herrling of the Battle Monuments Commission, Steve Dola representing DOD and the cemetery issues, and Gil Coronado, the Director of Selective Service, and, of course, the Chief Judge of the Court of Veterans Appeals.

I would like to begin my opening statement, very briefly, to talk about our first panel. I believe that the chairman has outlined some yellow flashing lights about national service, but I would hope that it would not be a red light to the program. Yellow flashing lights are a metaphor that I use where we say we have to pause, proceed with caution, and analyze the risk as we look over the intersection and where we find ourselves.

I think that national service, like any new program that focuses primarily in a decentralized approach, State and local, will have a lot of bumps on the road in terms of management. What we want to talk about is get back to the mission of the program, which was to deal with two issues: one, to rekindle a sense of the civic virtues that we needed around duty, obligation, and sense of community. But the other was to deal with the fact that for many young people the American dream was no longer available and that there was not a real opportunity ladder to afford higher education.

For those of us who helped create national service, we did not want another program; we really wanted to launch a social movement. We did not want another giveaway, but we wanted to say for every opportunity there was an obligation. We did not want to talk about an entitlement society; we wanted to talk and function on an empowerment society.

The whole role of national service is that by performing community service you earn a voucher to reduce your student debt, a

voucher to pay for higher education. So it was based on essentially opportunity and obligation linked.

The work that the volunteers do is not glamorous. It does involve cleanup and it focuses on public safety, the environment, helping with education, and focusing on many areas. I know that not only are heartwarming stories told, but that there are other issues around it.

What I want to be sure is that we have a national service program. The President has talked about stimulating voluntarism, and later on in April there will be a bipartisan and I hope a nonpartisan summit on voluntarism in Philadelphia. Who will be there? Not only President Clinton, but President George Bush, who founded the Points of Light concept that our subcommittee under both stewardships have funded. It will have Colin Powell, who certainly knows what duty, obligation, a call to service meant, and how we can translate that into civilian society.

But I believe we need to have a mechanism to operationalize good intentions and where there is a Federal role, but not a federally restrictive set of mandates. So we look forward to that summit and how we can continue to stimulate voluntarism, not only through this program but through others.

The GAO report does raise some issues and concerns, but what they talk about is, though the State commissions vary, they are meant to vary. What we wanted to have is that each Governor could decide how to run this program according to local need. It was to be Federal resources and a State and locally run program, tailored to local community needs and not a cookie cutter approach.

So I think that we have gotten off to an uneven start, and we thank Senator Wofford for ironing out a lot of the wrinkles that we had: No. 1, acknowledging the validity of the concerns that the Congress had; No. 2, taking corrective action; No. 3, to try to put this program on track where it is not a program only for today, but a program for tomorrow, that the values learned by participating in the program carry on long after someone leaves the program.

Last, but not at all least, when we talk about the attrition rate we are talking about two things. One, that you have to be fit for duty to stay in this program, and we wanted the restrictions to be tough, so that if anyone had reasons for cause to be dismissed for, say, drug abuse, then so be it.

The other is that we are recruiting not only yuppie college kids to pay off their student debt—a very worthwhile endeavor, I might add—by creating a sense of obligation, but we were also recruiting among the poor. In many instances, deep compelling personal reasons meant that people had to leave the program. So, therefore, the attrition rate is in many ways to be expected.

Well, I sound like I am giving the testimony that maybe Senator Wofford is going to give, but I do think we really need to, and through this appropriations cycle, to look at where national service has been and correct the problem and look at where national service could go, and really in a bipartisan, nonpartisan way focusing on some clear objectives and strong management controls.

So with that, I will conclude my statement.

Senator BOND. Thank you very much, Senator Mikulski.

Senator Campbell.

STATEMENT OF BEN NIGHTHORSE CAMPBELL

Senator CAMPBELL. Thank you, Mr. Chairman.

I am pleased to see our former Senate colleague, Senator Wofford, here, the Chief Executive Officer of the Corporation for National Service.

In my home State of Colorado I visited the location at our former Lowry AFB on a couple of occasions and I believe it has a great deal of potential. I know that there has been some growing pains with it and I know it has come into some criticism, but generally this group in our State has helped low-income communities. It has tutored at-risk youth, for instance, and it has monitored students, helped with antigang initiatives, and a number of things. Similarly, I think it has helped homeless veterans on many occasions and I certainly support that.

I guess that I have got some concerns that some of the other committee people have, too, that I guess could be best described as Senator Mikulski has. There are some yellow lights going off about how the budget is being handled. But I think generally it is a new program and generally doing very good.

I just wanted to tell our former Senator that I am certainly supportive of it and hope we can iron out those problems and get on with it.

Senator BOND. Thank you very much, Senator Campbell.

Senator Boxer.

STATEMENT OF BARBARA BOXER

Senator BOXER. Thank you so much, Mr. Chairman. It is certainly a pleasure for me to be here today. As a new member of this committee and this subcommittee, I am very honored.

I wanted to mention, if I have to get up and leave in the middle of something, I have got a conflicting hearing on Superfund sites going on elsewhere in the building. So forgive me.

But I really wanted to come by to extend a special welcome to Harris Wofford, our former colleague, who is now CEO of the Corporation of National Service. He is a hero of mine and his interest in this goes way back. I remember when I was a junior at college President Kennedy urged our Nation's young people to ask not what your country can do for you, but what you can do for your country, and I remember that resonating with me, and here we are so many years later with those same words having tremendous meaning.

Once again, this challenge has been made to our Nation's young people through this program, and once again I am happy as well to see young people responding. I hope that we will not take away this opportunity. I believe that we can get to the bottom of whatever the problems are and have some strong bipartisan support for it.

The Corporation for National Service plays a key role in helping our country and our communities address unmet needs, while ushering in a renewed commitment to civic responsibility. In my State we have over 2,300 AmeriCorps members in 48 different sites. Members tutor children K through 12, they mentor teens at risk of dropping out or becoming teen parents, they assist local commu-

nity organizations in reducing juvenile crime. They support local residents in identifying and addressing the most critical needs.

Like Senator Campbell, I have had the privilege of visiting some of these programs and seeing our young people at work. They have become heroes in many communities, and it is just a joy to see that. Then they get the opportunity to go to college.

So I think it is a program that has a vision, and if we are careful and if we do it right I think it should meet everyone's expectations.

As a former local elected official, I appreciate the fact that there is not a cookie cutter approach to this program, because every community has different needs, and that is what I like about this program.

So I am pleased to be here today and I look forward to hearing about the future plans.

Thank you very much, Mr. Chairman, for this time.

Senator BOND. Thank you very much, Senator Boxer.

Senator Burns.

STATEMENT OF CONRAD BURNS

Senator BURNS. Move on.

Senator BOND. Thank you very much, Senator Burns. That is one of your best statements yet. [Laughter.]

Senator BURNS. Coming from you, I will accept that as a compliment.

Senator BOND. That is how it was meant, Senator.

Senator Wofford, we are delighted to have you with us today. As you will understand, we will make your full statement a part of the record and would welcome your highlighting those items which you think ought to be called to special attention for this subcommittee.

Please begin.

STATEMENT OF HARRIS WOFFORD

Mr. WOFFORD. Mr. Chairman, Senator Bond, Senator Mikulski, Senator Boxer, Senator Campbell, Senator Shelby, Senator Burns: I look forward to reading Senator Shelby's remarks and anything Senator Burns has to say now or in the future.

I appreciate this opportunity to discuss the progress and the plans of the Corporation for the coming year. Our budget request is for $548 million for the programs authorized under the National and Community Service Trust Act, and these funds would support approximately 29,500 AmeriCorps members through the grant program and 1,600 members in the National Civilian Community Corps.

The request includes $53 million to support the Learn and Service America, K through 12, and higher education programs, and $6 million for the Points of Light Foundation initiated by President Bush, which has become a special partner of ours both in the summit and in many other ways.

By the way, Senator Mikulski, I am delighted to introduce Marilyn Smith of Maryland, who is just taking over as the director of the Learn and Serve America Program.

Senator MIKULSKI. I was going to introduce her when I do my questions.

Mr. WOFFORD. She was executive director of the State Commission in Maryland and a pioneer in service learning.

Now, my testimony does not address the VISTA section of AmeriCorps or the Senior Corps programs funded under the Domestic Volunteers Service Act. Mr. Chairman, I appreciate very much your support over the years for VISTA and its 30-year track record as the first domestic Peace Corps, of helping people and communities help themselves.

By the way, I hope the VISTA approach is, in fact, going to be a larger proportion of the overall AmeriCorps scheme.

I want to make three points: First, that national service works. It is a proven way to leverage volunteers and help to solve community problems; especially the critical problems of children and youth.

Second, that we are committed to achieving the highest levels of integrity and efficiency. We have already taken important steps to cut costs, increase efficiency, and develop a sound financial management system.

Third, I want to outline briefly three initiatives—America Reads, National Service Scholars, and the Presidents' Philadelphia Summit, Presidents plural, as Senator Mikulski pointed out, to be chaired by Gen. Colin Powell. Those initiatives can help unleash a new wave of voluntary citizen action aimed at solving some of our country's most serious problems in a decentralized, nonbureaucratic way.

There are very few programs that have received the same level of scrutiny as AmeriCorps. The conclusion of the evaluations and reports and the experience of communities across America, reflected in so many Governors' support for Corporation programs, is that national service works, helping to solve the toughest problems of education, crime, drugs, illiteracy, homelessness, environmental problems.

As I detail in my written testimony, Aguirre International, an evaluation firm headed by President Ford's Education Commissioner, found significant accomplishments in every area in which AmeriCorps members serve. Nowhere is AmeriCorps having a more profound effect than in education. More than one-half of all AmeriCorps members work with children and youth. They teach, tutor, run after school programs, do drug prevention work, create safe havens and safe corridors, and organize secondary, middle school, and university students themselves to serve.

Thousands of AmeriCorps members serve as mentors or are recruiting mentors to work one on one to help children do better in school. AmeriCorps members are also in the front lines in the fight against crime. They organize crime watch groups, work to reduce gang violence and help crime victims. Their efforts have won extraordinary praise from police chiefs and sheriffs around the country.

A key to understanding AmeriCorps is the degree to which it leverages unpaid volunteers. Originally there was some concern, and there is still in some people's minds, that there is a contradiction between full-time service with living allowances and traditional unpaid volunteering, when exactly the opposite is the case.

Very often, in most cases you cannot use large numbers of unpaid volunteers without a cadre of full-time people to make it possible. Right now today there are two teams of the NCCC, National Civilian Community Corps, who have gone right away on the call of FEMA, as they also do on the call of the Red Cross, to the disaster area in Arkansas. They help organize unpaid volunteers. They come quickly. They work night and day. They stay until the job is over.

Because members serve full time every day, they help the nonprofits in which they serve to multiply the number and effectiveness of unpaid volunteers. Habitat for Humanity is a case in point. At the Habitat site in Miami, 2 dozen AmeriCorps members helped recruit, and worked alongside, thousands of community volunteers to build 50 new homes.

Aguirre International found that each AmeriCorps member recruited, trained, and supervised an average of 12 unpaid volunteers. The hundred projects in our Learn and Serve America Higher Education Program have generated the service of an additional 27,000 volunteers. These numbers will continue to grow as we put extra emphasis on volunteer generation.

National service is cost effective. Three separate independent evaluations have examined the costs and benefits and have concluded that it is a wise investment that returns from $1.54 to $3.90 for every dollar invested. That is one reason Massachusetts Gov. Bill Weld has said it is the wisest investment of taxpayers' money he could think of.

On another front, AmeriCorps is living up to its GI bill promise of expanding educational opportunity for those who serve, especially those from America's hardworking middle class. Last year 55 percent of AmeriCorps members came from households with incomes of from $10,000 to $50,000. Another 21 percent come from homes with less than $10,000 income. The National Service Trust has already made more than 26,000 payments totaling $44 million to over 6,000 education and loan-holding entities.

The Corporation is a lean, decentralized, and responsive public-private partnership that is locally based. Grants go to local nonprofit groups—schools, colleges, universities, faith-based groups—more than 430 such through AmeriCorps alone. These groups decide what service will be performed and they select and enroll the members.

Two-thirds of these grants are made by Governor-appointed State commissions. The other one-third go to national nonprofits, such as Habitat, the Red Cross, and the Boys and Girls Clubs.

National service is competitive. States compete for Corporation resources and local programs compete for AmeriCorps members. Programs that do not perform get eliminated. Since AmeriCorps started, 70 programs have not been renewed for additional funding.

National service uses rigorous evaluation to improve quality. Right now 14 separate studies related to AmeriCorps are being conducted or planned, most by outside evaluators. In addition, we require every AmeriCorps program to design annual objectives based on measurable outcomes—reading scores raised, children immunized—and check their progress through the year. This is a cutting edge initiative in the nonprofit sector.

All the programs of the Corporation are nonpartisan in spirit and in construction. By law, State commissions are comprised of a balance of Democrats and Republicans. Commissions are appointed by Governors, three-fifths of whom are Republican. Bipartisanship is built in.

Perhaps no other issue has generated so much confusion and misinformation as the issue of costs. AmeriCorps members who serve their community full time for a year receive a living allowance that averages about $150 per week or $7,800 per year, going up under cost-of-living formulas to a little over $8,000 in the coming year—not $18,000, not $27,000, not $50,000, as some critics have stated.

After the corpsmember completes a year of full-time service, he or she earns an educational award of $4,725 to be used at some point over the next 7 years. There is an additional allotment for health care. The total base support for the AmeriCorps member amounts to about $13,000 in living allowance, health insurance, and education award.

The total average cost from the Corporation's appropriations per AmeriCorps member has been a little over $18,000 and it is going down. The steps we have taken to cut costs include eliminating grants to Federal agencies, planning grants, and member relocation costs. We have raised the local match from 25 percent to 33 percent, requiring grantees with above-average costs to cut costs by 10 percent this last year and expanding the number of education awards only—a good idea that Senator Grassley has strongly pressed for.

In this program, the Corporation provides education awards to nonprofits, religious organizations, colleges, and others who agree to provide the AmeriCorps member's living allowance. We have already approved 2,000 of these assignments, including a new partnership with the Boys and Girls Clubs of America to support 800 AmeriCorps members. The National Council of Churches will sponsor more than that number.

Furthermore, last May I announced an ambitious plan for reducing AmeriCorps costs. We are reducing the average cost per member to $17,000 in program year 1997—that is including education award and everything—to $16,000 in 1998 and to $15,000 in 1999.

This includes all of the items that I have listed above including recruitment, training, and all our program support.

Senator BOND. Mr. Wofford, we turned off the light and let you go a little longer than the 5 minutes we had forecast. We do have four others to do. It has been about 15 minutes and I hate to do this, but we have a heavy schedule today. If you could wrap up.

Mr. WOFFORD. I will try to wrap up fast. Thank you, Mr. Chairman.

The handling of the Corporation's financial management problems demonstrates our commitment to change and reform. My top priority, shared actively by our Corporation's Board of Directors, is getting our financial house in order. Under the leadership of our new chief financial officer, Donna Cunninghame, we are making steady progress toward producing auditable books and correcting deficiencies. Our goal is to build a sound financial management

system and make the preparation of auditable financial statements a routine operation.

The $38 million, Mr. Chairman, that you mentioned a little earlier, in fact, is money that Ms. Cunninghame, tells me has been brought down to the neighborhood of $28 million. With some further adjustments it will come down more.

Last, the three initiatives. The America Reads campaign launched by President Clinton, endorsed by so many Governors and mayors, is——

Senator MIKULSKI. Senator Wofford, just to help you out here and move along with the chairman, and not to interrupt your testimony, but I have two questions related to America Reads and also to the Presidents', the multiple Presidents' summit, the Colin Powell, and perhaps we could come to those two issues in my question.

Mr. WOFFORD. Very good.

Senator MIKULSKI. And you could brief us on that and through that question.

Mr. WOFFORD. I will await your question. That help is welcome, Senator Mikulski.

I might say that the one other initiative other than the American Reads and the Presidents' summit is the National Service Scholars Program for which we are asking $10 million. In his commencement speech at Penn State, the President called for service to become part of the ethic of every school in America. To help make this happen in every high school, he announced the National Service Scholars Program, which will reward high school juniors and seniors who do outstanding service with a $1,000 college scholarship, $500 of which will come from the Corporation and $500 from local sponsors.

The Corporation has contracted with a private foundation to administer this program, which will begin making its awards this spring.

PREPARED STATEMENT

I will conclude by saying that national service fits the era in which big Government is over because the era of big citizens is beginning. The other side of reinventing Government is reinventing and reinvigorating citizenship. National service reduces our reliance on Government by mobilizing citizen action. It helps communities solve problems in their own ingenious ways. It strengthens the building blocks of civil society. It is a smart and wise investment and there are compelling reasons why it should be continued, not despite tight budget times but because of them.

Thank you, Mr. Chairman.

[The statement follows:]

PREPARED STATEMENT OF HARRIS WOFFORD

Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to appear before you today to review the Corporation's progress over the last year and to report about our plans for the future.

The total fiscal year 1998 budget request from this Subcommittee for programs authorized under the National and Community Service Trust Act is $546,500,000. In addition to this amount, we are seeking a separate appropriation of $2,500,000 from this Subcommittee for the Office of the Inspector General.

These funds will provide for approximately 29,500 AmeriCorps members through grant programs and approximately 1,600 AmeriCorps members through the National Civilian Community Corps (NCCC) program. (Participants in the AmeriCorps*VISTA program, funded through the Subcommittee on Labor, HHS, Education, and Related Agencies, will bring the total to 35,000 AmeriCorps members.)

The amounts requested represent an increase of $146,500,000, or 36 percent over the fiscal year 1997 funds appropriated by this Subcommittee for national service. The increase is targeted to the America Reads initiative, the challenge to Americans to help all children read well and independently by the end of the third grade. National service's role will be specifically outlined in legislation to be presented to the Congress later this month.

The budget request will cover the costs of making the current District of Columbia NCCC deployment site a permanent campus, expanding other campuses, and establishing a new campus in a region of the country not currently served by the NCCC. In addition, these funds provide an increase in support to service-learning initiatives in K–12 schools, community organizations, and institutions of higher education through the Learn and Serve America program.

For three years, national service has had proven, positive results in improving America's communities. National service programs have been "getting things done" and expanding educational opportunities, improving the environment, enhancing public safety and meeting other human needs. Outside experts have found that representative programs have achieved positive cost-benefit ratios that merit and justify your continued support.

GETTING THINGS DONE

In the three years since the program was created, 70,000 AmeriCorps members have served in over 1,800 non-profit operating sites.

A 1996 independent evaluation of AmeriCorps programs by Aguirre International—headed by President Ford's Commissioner of Education—examined the activities of one out of every ten AmeriCorps members then serving. Aguirre found that this small-but-representative sample of individuals:

—Taught, tutored, or mentored almost 64,000 students.
—Collected, organized, and distributed 974,000 pounds of food.
—Helped 2,550 homeless people find shelter.
—Developed and distributed 38,500 sets of information about drug abuse, HIV/AIDS, street safety, health care, and other issues.
—Ran violence-prevention after school programs for 50,000 youth.
—Performed energy audits for more than 18 million square feet of buildings.
—Planted more than 210,000 trees.

AmeriCorps members have similar achievements in every state over the last year.

The 78 AmeriCorps sponsored by the Montana Conservation Corps repair the homes of elderly and low-income residents, restore and protect natural resources, improve the habitat of wildlife, and increase the public's access to natural sites. The AmeriCorps members also mentor at-risk youth while engaging them in service.

The Fort Belknap Community Council's New Vision Youth Serve is a program supported by a Learn and Serve America K–12 grant, run by and for this Montana tribe. The Fort Belknap Tribal Education Department, College Safe Future Program, Housing Authority, Youth Council, and Tribal Health Department are developing a network of community service centers on the tribe's reservation to address public safety, human and environmental needs.

The Blue Hills AmeriCorps program engages 18 AmeriCorps members in partnership with the Kansas City, Missouri Police Department to help close drug houses, reduce crime by reporting drug activity, establish safety corridors, and train youth and adults in conflict resolution. This year, Blue Hills AmeriCorps members recruited and trained 734 volunteers to serve as school bus stop guards at 62 school bus stops. Over the last three years, more than 50 drug houses were closed down, some of which have been taken over by the city and are being rehabilitated as affordable single-family housing for low income families.

In Birmingham, Mobile, and Montgomery, Alabama and 17 other cities in nine southern states—the Alliance for Catholic Education (ACE) provides teachers and other resources for under-resourced parochial school systems through a Learn and Serve America: Higher Education grant. ACE and the University of Notre Dame are matching every Corporation dollar with 13 dollars for the 1996–97 program year. ACE Learn and Serve members are graduates of several top college institutions of higher education, including Notre Dame, Duke, Georgetown, and Boston College.

The 28 AmeriCorps members sponsored by the American Youth Foundation's St. Louis Partners for Service Education tutor and assist teachers in developing projects related to literacy, the environment, first aid, and substance abuse prevention. The AmeriCorps members have recruited more than 100 parents to assist in classrooms and other educational support activities.

Twenty AmeriCorps members sponsored by the Notre Dame Mission Volunteer Program and the Sisters of Notre Dame are serving at eight schools, community centers, and soup kitchens across Baltimore, Maryland. Sharonne Henderson, a Notre Dame—AmeriCorps member who tutors children at City Springs Elementary School, recognized that one of her students had significant trouble seeing. The child was tested, diagnosed as having a cataract, and fitted with glasses. Ms. Henderson's presence, attention, and concern led to the early detection and treatment of this very serious condition. The Notre Dame Mission Volunteer program also sponsors 48 other AmeriCorps members who serve in Boston, Massachusetts, Cincinnati, Ohio, and Apopka, Florida.

The 173 AmeriCorps members of the United Youth Corps of Maryland maintain and restore 15 state forests, parks, and wildlife management areas. Members rehabilitate abandoned houses and construct community parks in low-income Baltimore neighborhoods, tutor students with special needs, and serve as teachers' aids.

In Alaska, AmeriCorps members serve in more than 30 communities to improve environmental education, recycling, sanitary waste management, early childhood education and tutoring. Members serve in rural areas such as Hooper Bay and Nulato.

Students at the Cape May County (New Jersey) Technical High School in New Jersey are working with Habitat for Humanity in a program sponsored by Learn and Serve America K–12. The students build houses on the school property which are then transferred to lots throughout the area. The program was recently named a Best Practice/Star School in the category of Public Engagement by the New Jersey Department of Education—the only one of 1,000 programs under consideration to win that distinction.

Twenty-four AmeriCorps members sponsored by Vermont's Northeast Kingdom Initiative Program are serving youth, unemployed or under-employed adults, and the elderly in a three-county area—one of the poorest and most rural areas in the nation.

Twenty-two Kern County School District AmeriCorps members in California's Central Valley are tutoring 600 students in the 1996–97 school year. Over half of the students tutored are now reading at or above the standard for their grade levels.

Twenty-two AmeriCorps members in the Idaho TRIO AmeriCorps program have leveraged the assistance of 369 volunteers to tutor 1,997 at-risk K–12 students. Seventy percent of the students tutored showed improvement of their school performance by at least one grade. The AmeriCorps members have also advised 863 students regarding career choices and assisted 338 Idaho teachers through in-class and other support. AmeriCorps members were able to encourage AmeriCorps host agencies to contribute more than 2,169 hours to support the service of members. One student said of the program, "I can feel good about myself. I'm proud of myself. I feel even better about my dream to go to college."

Now in its third year of operation, twenty AmeriCorps members in the Iowa Coalition Against Domestic Violence Program, a statewide AmeriCorps program, have made 12,464 contacts with victims of domestic abuse (250 percent of their goal), assisted over 1,000 women in obtaining pro se protective orders (133 percent of their goal), and provided 371 educational programs for Iowans ranging from elementary school children to senior citizens (77 percent of their goal). This program has been very effective in engaging another 400 non-AmeriCorps volunteers to provide 160,000 hours of additional services to victims of domestic violence. AmeriCorps members serve in similarly effective programs across the country, including the New Hampshire Coalition Against Domestic and Sexual Violence's AmeriCorps Victim Assistance Program. This program, and others, in New Hampshire prompted former Governor Stephen Merrill to state that "the national service program has been a great success in the state of New Hampshire and I anticipate it will continue to be in the future * * *. These motivated individuals make AmeriCorps work for New Hampshire and I am pleased to be a partner in this process."

In addition to environmental and disaster relief work across the region, AmeriCorps National Civilian Community Corps (NCCC) members based at Colorado's Lowry Air Force Base have achieved significant results in Denver schools. Over the last year, the 14 corpsmembers who served at Denver's Capitol Hill Children's Center helped kindergarten students improve their language-skills test scores by an average of two years. Thirteen other corpsmembers served as mentors to the first-through fifth grade students at the Smith Renaissance Academy. Together, the

students and corpsmembers produced a school newspaper, which allowed the students to develop reading, writing, and research skills while preparing stories about their community. An additional 14 AmeriCorps*NCCC members served at the Columbine Elementary School, where they helped set up a new school building designed to house a program focusing on the first- and second-grade students' literacy skills. These NCCC members tutored students who needed special assistance and designed an after-school program for primary students and their parents.

These examples quantify the immediate effects of national service. While we can measure the value of the bridge AmeriCorps members helped repair or estimate the cost to society had AmeriCorps members not tutored children in need, some benefits of the Corporation's programs are not immediately measurable. By instilling a sense of pride in a community, by establishing community volunteer programs, and helping prepare children for their first days of school, AmeriCorps members help to crack the atom of civic indifference creating a chain reaction whose effects transcend quantification and are felt in a myriad of ways.

DEMOGRAPHICS

The strongest links in this chain are the AmeriCorps members. AmeriCorps members mirror the diversity of the communities in which they serve and look like a cross-section of 21st century American cities. Preliminary demographic information on current participants in AmeriCorps grants programs and the NCCC are similar to those of the first and second years of the program. Approximately one in two AmeriCorps members are white, slightly less than one in three is African American, and one in six is Hispanic. Initial data shows approximately four percent of these current AmeriCorps members are of Native American, Asian or Pacific Islander heritage.

Data about the levels of education already achieved by AmeriCorps members suggests an important trend: in each of the three years of AmeriCorps, the percentage of participants who already earned their bachelor's degree, spent some time in graduate school, or earned a graduate degree has increased. In the 1994–95 program year, these three categories comprised 29 percent of AmeriCorps members. The sum grew to 35 percent in 1995–96, and preliminary data for the 1996–97 program year indicates another increase, to 36 percent.

AmeriCorps expands opportunity in exchange for responsibility for the broad middle class. In the 1995–96 program year, 56 percent of the AmeriCorps members came from households with annual incomes of less than $30,000. (The Corporation receives no information about the household family income of AmeriCorps members until the end of the program year.)

The Subcommittee should note that for the current, 1996–97 program year, all of these figures may reflect a shift in the balance between urban and rural communities because the Corporation has eliminated AmeriCorps grants to other federal agencies. Some rural programs that utilized AmeriCorps members and worked with local offices of the United States Department of Agriculture or other agencies no longer exist. The Corporation is making a concerted effort to restore and increase rural representation in the AmeriCorps program.

EXPANDED OPPORTUNITY

Over the last three years, AmeriCorps has enabled 70,000 Americans to serve their communities in exchange for expanded opportunity. Approximately 45,000 of these individuals were participants over the first two years of AmeriCorps, and are eligible to earn national service education awards. The remaining 25,000—who are currently in the midst of their year as AmeriCorps members—will earn education awards when they complete their terms of service. Those who have completed their terms of service have seven years within which to use their education awards.

The National Service Trust has already made over 26,000 payments totaling approximately $44 million to over 6,000 education and loan-holding entities. Currently, the Trust is averaging over $600,000 in payments weekly. This number will increase as more and more members avail themselves of their education award.

COST—BENEFIT

Independent evaluators have repeatedly proven that national service yields a positive return on investment. The authors of each study have cautioned that their findings probably underestimate the benefits of national service significantly, because the full value of safer streets, stronger schools, cleaner rivers, and the like are difficult to quantify and not seen immediately.

—In the "Cost-and-Benefit Study of Two AmeriCorps Projects in the State of Washington," the Northwest Regional Educational Laboratory concluded that

every dollar invested in these Washington State projects yielded a return up to $2.40 in addition to less-easily measured benefits.

—To analyze their significant investments as AmeriCorps private sponsors, the Charles A. Dana, IBM International, and James Irvine Foundations commissioned a team of noted conservative "Chicago School" economists to examine more than 70 AmeriCorps sites in Austin, Texas; Columbus, Ohio; Atlanta, Georgia; Charlotte, North Carolina; New York City; and northern California. In their report called "The Benefits and Costs of National Service," Kormendi/Gardner Partners predict that for every dollar AmeriCorps invests, the public will realize up to $2.60 or more in direct, measurable benefits.

—The University of Minnesota, in the "Youthworks-AmeriCorps Evaluation First Year Report" on projects across Minnesota, found benefits up to $3.90 for each dollar invested in these programs.

A study of the Learn and Serve America: K–12 completed by Brandeis University and Abt Associates concluded that "on average, the programs in the intensive study sites produced about $3 in direct community benefits for every dollar in program costs."

When Massachusetts Governor Bill Weld swore in his State's AmeriCorps members this fall, he explained how "every taxpayers' dollar we spend on AmeriCorps comes back threefold, when we add up the value of your innovative ideas, your physical labor, and all of the skills you'll bring to the workforce when you finish your education." That's why he calls AmeriCorps "one of the most intelligent uses of taxpayer dollars ever."

AMERICA READS

These demonstrated successes led President Clinton to give national service a major role in the America Reads Challenge. The America Reads Challenge is a national campaign to ensure that every child can read well and independently by the end of the third grade. The President has proposed that money from the Corporation's budget be used so members of AmeriCorps may play a key role in recruiting, training, and organizing the new army of 1,000,000 volunteers who will tutor young children.

The increasing complexity of today's jobs and society amplifies the importance of literacy. Research shows that if students cannot read well by the end of third grade, their chances for later success are significantly diminished—including a greater likelihood of dropping out of school and other delinquent behavior.

Poor literacy skills are one of our nation's most serious problems. Recent testing by National Assessment of Educational Progress found that 43 percent of America's fourth grade students in public schools scored below the basic reading level. Education outside the classroom is essential to improving reading skills. A U.S. Department of Education study, "Reading Literacy in the United States", found that fourth-grade average reading scores were 46 points below the national average where principals judged parental involvement to be low, but 28 points above the national average where parental involvement was high—a difference of 74 points. Reading is a skill that is developed not only in the classroom, but also outside of school in the home. To this end, America's Reading Corps will mobilize tutors to work with reading teachers, principals, libraries and community-based organizations to provide individualized after-school, weekend and summer reading tutoring for more than 3 million K–3 students and their parents.

There are several parts to the America Reads Challenge, including: the Reading Corps, which will tutor children in grades K–3 who need extra help; the Parents as First Teachers program, which will assist parents in helping their children; expansion of Head Start programs; and a challenge to the private sector to work with schools as they have with the Department of Education's Partnership for Family Involvement in Education and the READ*WRITE*NOW! initiative. The Reading Corps is, the heart of the program that is proposed to be funded at almost $2.5 billion over 5 years, will provide reading specialists and tutor coordinators to train and supervise the tutors.

The President has asked for national service's participation because we are well equipped to handle this challenge. Many of our programs have strong track records helping children improve their reading skills and assist parents in becoming an essential part of their children's education.

For example, the Home Instruction Program for Preschool Youngsters (HIPPY) has had a remarkable record of preparing children for success in school before their first day of kindergarten. AmeriCorps Members in 16 States and 43 HIPPY Sites serve as resources for parents, especially single mothers on welfare. They make home visits every two weeks to help young mothers improve their basic parenting

skills and provide their children with an enriched preschool experience. In doing so, AmeriCorps Members often instill in parents an interest in their children's education, and this interest spurs them to be more effective partners with their children's classroom teachers. Programs like HIPPY that ensure children have basic learning skills before entering the classroom make it more likely that the children will be able to read well by the end of third grade.

In another program, Parents and Children Together in Learning (PACT), Learn and Serve America members through Harcum College, in Bryn Mawr, Pennsylvania bring parents back to school to teach them how to help their child read. Working with School District of Philadelphia, PACT trains inner-city parents to be volunteer tutors in their children's classrooms. PACT enrolls parents who participate in the program in Bryn Mawr classes for two weeks to teach them how to be a tutor. As a result, nearly 450 parents have improved their own skills while tutoring more than 4,000 children. The parents earn college credit for participating in the program.

In Simpson County, Kentucky, 25 AmeriCorps members work directly with elementary school students to boost reading comprehension and nurture a love of books. The program is called SLICE ("Service Learning Impacting Children's Education") and it gets results. By the end of the first year of the program more than 100 of the 122 tutored students in the county had improved their reading scores by at least two grade levels.

The SLICE program exemplifies some less obvious benefits of AmeriCorps literacy programs. The program has been successful in improving the reading ability of students, and has helped develop community involvement in the process. Small business owners, local members of the American Association of Retired People (AARP), a retired teachers group, and even the entire staff of the local city hall have pitched in on the reading effort. Each SLICE AmeriCorps member recruits an average of 16 unpaid volunteers.

By fostering community support, SLICE has achieved what we strive for in every national service program—a sustainability that is not dependent on any one individual or even a core group of original volunteers. This is how service can take root and grow to become a natural part of the life of a community.

### NATIONAL SERVICE SCHOLARS PROGRAM

The President announced the National Service Scholars Program in his June, 1996 commencement address at Pennsylvania State University. To qualify for the National Service Scholars Program, students must be juniors or seniors in high school who have performed community service for at least a year and who have been nominated by their principals. Recipients will receive a check for at least $1,000 for college costs, of which $500 will come from the National Service Trust and at least $500 will come from local scholarship sponsors.

The Administration's 1998 suggested appropriations language sets aside $10 million for the National Service Scholars program. This is consistent with the mission of the National Service Trust, which was established as a repository for education awards for participants in national service programs.

In accord with our commitment to reinventing government, a private 501(c)(3) foundation, the Citizens' Scholarship Foundation of America, will administer the National Service Scholars Program. A competitive announcement was made in the Federal Register for this cooperative agreement, and the Citizens' Scholarship Foundation of America was chosen from a pool of seven highly qualified applicants. The Foundation has a 35-year history of encouraging and rewarding community service by youth through its Dollars for Scholars and other programs. Last year, the Citizens' Scholarship Foundation of America distributed close to $40 million in scholarships. The Corporation for National Service is pleased to rely on the talents of the Citizens' Scholarship Foundation of America to administer the National Service Scholars program.

### THE PRESIDENTS' SUMMIT FOR AMERICA'S FUTURE

The Presidents' Summit for America's Future will, with the sponsorship of private foundations, bring together people from all over the nation who are committed to stimulating service and community volunteerism to ensure our youth have access to the resources that will help them lead healthy, fulfilling, and productive lives. It is a bipartisan endeavor convened by President Clinton and former President Bush as honorary Co-Chairmen, retired General Colin Powell as Chairman, and former Secretary of Housing and Urban Development Henry Cisneros as Vice Chairman.

Summit sponsors include the Robert Wood Johnson Foundation, the Ewing Marion Kauffman Foundation, the W.K. Kellogg Foundation, the David and Lucille Packard Foundation, and the Pew Charitable Trusts.

Community delegations from more than 100 cities and rural communities, state delegations led by the nation's governors, and leading citizens from the public and private sectors will come to this summit with concrete commitments to increase young people's access to one or more of five critical resources: An ongoing relationship with a caring adult: mentor, tutor, or coach; safe places and structured activities during non-school hours to learn and grow; a healthy start; a marketable skill through effective education; and an opportunity to give back through community service.

Commitments that have already been made include:

—Big Brothers/Big Sisters has committed to doubling their mentoring relationships, reaching 200,000 matches through the year 2000. More important, service will become an integral part of the mentoring relationship and a key activity for current and future "Bigs and Littles."

—LensCrafters will provide one million needy people, especially children, with free vision care by the year 2003.

—AT&T has committed $150 million to connect the country's 110,000 public and private elementary and secondary schools on the Information Superhighway by the year 2000.

—The United States Army is taking the lead in encouraging a joint effort among the military services to expand opportunities for active-duty, reserve, and retired military personnel to volunteer their time as mentors and tutors in their local communities.

—The National Association For Equal Opportunity in Higher Education (NAFEO) has promised that half of the approximately 140,000 students enrolled in 117 Historically and Predominantly Black Colleges and Universities will volunteer as tutors and mentors.

—The presidents of 21 colleges and universities, including San Francisco State University, the Vermont State Colleges System, the University of Montana, the University of Maryland College Park, the Community College of Denver, and the California State University System have committed half or more of their increases in work-study funds to community service initiatives focusing on youth literacy.

The Corporation for National Service is working alongside the Points of Light Foundation in initiating and planning the Summit to promote the goals of the National and Community Service Trust Act, the mission of the Corporation, and the vision set forth in the Corporation's Strategic Plan.

The Presidents' Summit for America's Future has already created a surge of interest from the media, community service organizations, and corporate sponsors nationwide. We are looking forward to working alongside those who will participate in the efforts coordinated at this Summit to increase youth's access to fundamental resources and real opportunity.

MANAGEMENT CONCERNS

As Chief Executive Officer, my top priority—shared by the Corporation's Board of Directors—is putting our financial house in order. We are making steady progress in doing so. Our new Chief Financial Officer, Donna Cunninghame, and her staff are in the process of improving business processes and implementing appropriate management controls.

Ms. Cunninghame is a Certified Public Accountant. She and her staff have experience in both public and private sector accounting. Ms. Cunninghame served as the first full-time Chief Financial Officer of the Resolution Trust Corporation, and achieved three clean financial audits from the United States General Accounting Office (GAO) during that time. As Chief Financial Officer of the University of Maryland System, Ms. Cunninghame was directly responsible for all of its treasury, accounting, and financial operations. Ms. Cunninghame's staff also has expertise developing and implementing the type of corrective action necessary to resolve the Corporation's problems.

The Corporation's Inspector General, based on the work done by two independent auditing firms, found our fiscal year 1994 financial statements to be inauditable. The difficulty stemmed from the unusual creation of the Corporation, which merged existing service programs with the new service initiatives. The Corporation inherited organizations that had never before been required to present their financial data in the manner now required under the Government Corporation Control Act. The difficulties we had are common to most federal entities required to produce

auditable financial statements in a corporate style. Though initial inauditability may be common, it is unacceptable. We are aggressively working to produce auditable books.

Arthur Andersen, hired by the Corporation's Inspector General, produced an audibility report which identified 99 problems. Arthur Andersen reviewed our efforts to implement their recommendations—they looked at our progress on 62 issues and found 28 to be completed.

By the time the written report of the review was issued in December of 1996, Ms. Cunninghame, based on her experience producing clean audit reports, determined that 57 items were then corrected or in the process of implementation. The remaining 5 of the 62 reviewed items were related to activities that require substantial time and effort to complete. We are working on correcting those problems.

By March 1, 1997 we expect to have corrected or be in the process of implementing an additional 31 of the 99 items. Ms. Cunninghame has expressed to me her expectation that by May 1 of this year, all but two of the 99 problems will be corrected or in the process of implementation. One of those two corrections is the implementation of the new financial management system which we are preparing to do in 1998. The second is a minor item that is difficult to correct now but will be easy to correct when the new system is in place: a process by which the budget obligation to pay for a purchase is entered into the system before a purchase order is entered. When implemented, this will be an automatic part of the process.

I can report that the Corporation is making steady progress in establishing financial order. We are eschewing "quick fixes" in favor of systematically cleaning up data integrity problems while implementing appropriate managerial controls. By the time we install our new financial management system in 1998, the goal is that the underlying data will be scrubbed and reliable, business practices will be improved and effectively controlled, and fully auditable statements reflecting the Corporation's financial status should become routine.

CUTTING COSTS AND OTHER CHANGES

When I spoke with you last year, I outlined an early version of the Corporation's agreement with Senator Grassley to reduce costs and address other issues of concern to our critics. Working together, we improved AmeriCorps by reducing expenditures and expanding the number of individuals who will benefit from the opportunity to serve. The Corporation has committed itself to lowering its cost-per-member in the AmeriCorps grants programs by $1,000 in each of the next three years, starting with the programs set to begin this fall. The AmeriCorps budgeted average cost for programs supported with fiscal year 1998 funds will be $16,000, including the education award. By the fall of 1999, the cost will be down to $15,000 per member.

This figure includes all Corporation costs, including the Corporation's share of members' living allowance and benefits, the grant for program support, and the administration directly attributable to AmeriCorps grants by the Corporation and our support of the Governors' Commissions on National Service. (These numbers are indexed for inflation and assume that there will be funds appropriated to support no fewer than 25,000 AmeriCorps members each year.)

Over the last year, the Corporation has made many other changes to improve our efficiency. We have made improvements in our grant review process and increased the control the Governors' Commissions on National Service have over program decisions.

The Corporation has also increased our collaborations with national non-profit organizations, particularly by expanding the AmeriCorps "education-award-only" program.

In this program, the Corporation provides education awards to individuals who are serving in traditional non-profits and whose service qualifies them for education awards. These non-profits include religious organizations, colleges and universities, and other institutions which have applied to the Corporation and shown they are able to provide living allowances and other resources for these AmeriCorps members.

For example, the Boys and Girls Clubs of America are now supporting 800 AmeriCorps members in this way, using them to engage the youth in Boys and Girls Clubs in community service. Currently, 2,000 AmeriCorps members are sponsored through this program, and the Corporation plans to announce agreements with non-profits which will sponsor up to 3,000 more AmeriCorps members in coming weeks.

THE CAP ON NATIONAL DIRECTS

Currently, 43 national non-profits sponsor 2,500 AmeriCorps members through National Direct grants. Millard Fuller, founder and President of Habitat for Humanity International, explained that "as AmeriCorps members gain in construction skill, our Affiliates are able to expand the number of occasional volunteers through increased capacity to supervise and manage volunteers." Fuller later announced at a Washington, DC press conference that "I want you to know that we at Habitat for Humanity feel privileged and honored to have the AmeriCorps people with us, and we want more of them, as time goes on. We love to be partners with you in this work, and I salute all the AmeriCorps people."

Under the Corporation's authorizing statute, one third of the AmeriCorps grants funds are directed to National Direct programs. In fiscal year 1997, this corresponds to $71.7 million; for the proposed fiscal year 1998 budget, this corresponds to $98.7 million. If the fiscal year 1997 $40 million cap on national directs is not removed, the shortfall of funds will prevent as many as 13 of these non-profits from sponsoring AmeriCorps members this fall. All current national direct programs—including Habitat for Humanity, the U.S. Catholic Conference, the National Council on Aging, the I Have a Dream Foundation, the Enterprise Foundation, and City Year—will have to compete against each other for the remaining funds. No new AmeriCorps national direct grants to national non-profits—such as Big Brothers/Big Sisters—will be possible.

We are requesting that the fiscal year 1997 cap be eliminated and that no cap be put in place for fiscal year 1998.

REAUTHORIZATION

The Corporation for National Service's authorization expired on September 30, 1996. We are now operating under the authority of the General Education Provisions Act (GEPA) that will expire at the end of September, 1997. I have met with Chairman Goodling and representatives of the House Committee on Education and the Workforce to begin the formal reauthorization process, and am scheduled to meet with Chairman Jeffords and members of the Senate Committee on Labor and Human Resources in coming weeks.

Though it is too early to outline specific details about reauthorization, I expect that any plan to improve national service through this process will build on the key principles of the current national service network: flexibility, including the ability to redirect resources to meet new needs using proven techniques; stream-lining, including the importance of constantly improving efficiency; coordination, including maximizing cooperation among programs in a community; and devolution, including significant state-and local-control.

I look forward to working with the Congress through both appropriations and reauthorization to make national service a program in which all Americans can take pride.

I will be happy to answer your questions.

AMERICORPS MEMBERS BY RACE/ETHNICITY, 1994–1997 [1]

[Percent of members]

| Race/Ethnicity | Fiscal years | | |
|---|---|---|---|
| | 1994–95 | 1995–96 | 1996–97 |
| African-American | 32 | 27 | 29 |
| American Indian | 2 | 2 | 1 |
| Asian/Pacific islander | 3 | 3 | 3 |
| Hispanic | 15 | 18 | 16 |
| White | 49 | 48 | 42 |
| Other | ..... | 2 | 9 |

[1] 1996–97 enrollment is still underway, therefore, those data are incomplete.

EDUCATIONAL ATTAINMENT BY AMERICORPS MEMBERS 1994–1997 [1]

[Percent of members]

| Education level | Fiscal years | | |
|---|---|---|---|
| | 1994–95 | 1995–96 | 1996–97 |
| Less than high school | 9 | 5 | 8 |
| High school diploma | 21 | 22 | 20 |
| AA degree/some college | 41 | 39 | 36 |
| Bachelor's degree/some grad school | 26 | 30 | 28 |
| Graduate degree | 3 | 5 | 8 |

[1] 1996–97 enrollment is still underway, therefore, those data are incomplete.

HOUSEHOLD FAMILY INCOME OF AMERICORPS MEMBERS, 1994–1996

[Percent of members]

| Income range | Fiscal years | |
|---|---|---|
| | 1994–95 | 1995–96 |
| $5,000 or less | 8 | 6 |
| $5,001 to $10,000 | 12 | 15 |
| $10,001 to $20,000 | 16 | 19 |
| $20,001 to $30,000 | 18 | 16 |
| $30,001 to $40,000 | 12 | 13 |
| $40,001 to $50,000 | 11 | 7 |
| $50,001 to $60,000 | 7 | 6 |
| $60,001 to $70,000 | 5 | 5 |
| Over $70,000 | 11 | 12 |

AMERICORPS MEMBERS BY GENDER, 1994–1997 [1]

[Percent of members]

| Gender | Fiscal years | | |
|---|---|---|---|
| | 1994–95 | 1995–96 | 1996–97 |
| Female | 61 | 65 | 68 |
| Male | 39 | 35 | 32 |

[1] 1996–97 enrollment is still underway, therefore, those data are incomplete.

AMERICORPS MEMBERS BY AGE, 1994–1997 [1]

[Percent of members]

| Age | Fiscal years | | |
|---|---|---|---|
| | 1994–95 | 1995–96 | 1996–97 |
| Under 21 | 38 | 27 | 26 |
| 22–29 | 42 | 47 | 53 |
| 30–37 | 9 | 10 | 10 |
| 38–45 | 7 | 9 | 6 |
| Over 45 | 4 | 6 | 5 |

[1] 1996–97 enrollment is still underway, therefore, those data are incomplete.

FULL- AND PART-TIME TERMS OF SERVICE, 1994–1997 [1]

[Percent of members]

| | Fiscal years | | |
|---|---|---|---|
| | 1994–95 | 1995–96 | 1996–97 |
| Full time | 70 | 78 | 78 |
| Part time | 30 | 23 | 23 |

[1] 1996–97 enrollment is still underway, therefore, those data are incomplete.

CHIEF FINANCIAL OFFICER

Senator BOND. Mr. Wofford, in last year's budget hearings, you stated you expected to shortly bring on a Chief Financial Officer and, in fact, you only recently filled the position. More recently, Arthur Andersen issued a report on December 9, 1996, which raised serious concerns regarding your Corporation's progress in correcting deficiencies in financial systems and management controls. The report concluded, better than 8 months after our hearing last year, that the Corporation's internal controls were not adequate—I quote from the report:

> The Corporation's internal controls were not adequate for an independent auditor to perform an effective and efficient financial statement audit in accordance with generally accepted auditing standards for fiscal year 1995,

and that

> an audit of the Corporation's fiscal year 1996 financial statements may not be possible because many significant deficiencies remain uncorrected throughout the year.

At what point do you expect the Corporation to have established adequate internal controls for the independent auditor to perform an effective and efficient financial statement audit of the Corporation's financial statement, and when do you anticipate having auditable financial statements for 1995 and 1996?

Mr. WOFFORD. Ms. Cunninghame came aboard as a consultant in October.

Ms. CUNNINGHAME. I came on board as a consultant August 5.

Mr. WOFFORD. And in October you received a——

Ms. CUNNINGHAME. Recess appointment.

Mr. WOFFORD [continuing]. Recess appointment, because her nomination did not get through in time, though the Senate worked hard to try to get her nomination through. She received a recess appointment in October and has been aggressively pursuing all 99 items in the Arthur Andersen auditability study since then.

Her nomination is before the Senate Labor Committee this very week and we hope very much she will be confirmed very promptly.

By May 1 we expect to have 97 of the 99 items completed or in the process of implementation. We expect to have the remaining two items completed in 1998. One relates to the implementation of a new financial management system and the other is an improvement in the procurement process which can occur simultaneously with the financial management system implementation.

The inspector general and the Chief Financial Officer have discussed having an audit performed for the 1997 financial statements. Statements are going to be prepared for 1996 in order to provide beginning balances for 1997 and the auditors will be asked

to perform a review of these balances in connection with their audit.

I am very pleased that the inspector general of our agency and the Chief Financial Officer have established a professional working relationship which allows them to work together to strengthen the Corporation's management controls. I would be happy to give you a further detailed report.

FINANCIAL STATEMENTS

Senator BOND. My question was when do you anticipate having auditable financial statements for fiscal year 1995 and 1996. Given the answer, I gather that you are not expecting one. Do you have a date when you are expecting to be able to give us financial statements for those 2 years?

Mr. WOFFORD. We are hoping to have beginning balances for 1997 that will permit an auditable statement for the 1997 year.

Senator BOND. So you are not going to have one for 1995 and 1996?

Mr. WOFFORD. We are going to at some point have to have an agreement on the beginning balance that will permit an auditable statement.

Senator BOND. Thank you.

Mr. WOFFORD. We think it will be for 1997.

The problems related to this in our Corporation were like those of many other Government agencies. They are compounded by the fact that one of the agencies, the ACTION agency, goes back over many years. Until very recently, as you know, Government agencies were not asked to produce auditable financial statements under the generally accepted accounting principles.

Senator BOND. Mr. Wofford, all I asked was about the 1995 and 1996 statements.

I will submit the rest of my questions for the record.

Senator Mikulski.

Senator MIKULSKI. Thank you very much here.

Mr. Wofford, could your Chief Financial Officer join you at the table for a moment, please?

Mr. WOFFORD. Yes; indeed. Donna Cunninghame.

Senator MIKULSKI. Ms. Cunninghame, good morning and we welcome you. We know very much that the Corporation needs a Chief Financial Officer. What I am going to request is not a detailed description of the problems that we find ourselves in, but I think we owe it to the committee and to the taxpayers, essentially a description of why we have this situation, No. 1; and No. 2, what is your kind of workout or work plan to resolve this situation, really, and presenting it to us the way an accountant would present it.

We know you come from the Resolution Trust. Senator Bond has had extensive experience in that and we all recall with great melancholy what a fiasco it was and how much that cost the taxpayer because the financial institutions, who were supposed to be financial institutions, were not standing sentry. So it is a little intense to place the same kind of criterion on this nonprofit.

Could you then essentially give us a description, not an excuse, an explanation, a no-fault one, about why this situation existed?

But then, having said that, what is your work-through or workout plan? Is that possible for you to do?

Ms. CUNNINGHAME. Yes; Senator, it is. And I appreciate having an opportunity to share it with the committee. The Corporation, of course, was started October 1——

Senator MIKULSKI. Remember, I have 5 minutes, so I really need to move on.

Ms. CUNNINGHAME. The basic problem is taking together a group of existing companies who had different accounting records. Whatever financial management systems they had varied.

Senator MIKULSKI. Ms. Cunninghame, I am not asking you to describe your plan today. I am asking you to submit your plan in writing to the committee. I think there was a slight miscommunication.

Ms. CUNNINGHAME. I am sorry. I misunderstood that. I would be happy to.

[The information follows:]

WORK PLAN TO ADDRESS AUDITABLE FINANCIAL STATEMENTS

Many concurrent efforts comprise the Corporation for National Service's plan for producing auditable financial statements. A brief review of these efforts follows.

1. The auditability survey resulted in 99 recommendations dealing with five broad categories of concerns: the management control environment, integrity of financial data, data security, segregation of duties, and budgetary controls. An aggressive and sustained effort has been underway at the Corporation to respond to recommendations and to implement necessary changes that improve the Corporation's auditability. Arthur Anderson is conducting reviews of the Corporations efforts. A major phase of that review effort is just being initiated, and we expect to have positive responses from the auditors.

2. A Management Control Committee has been established at the Corporation and the first draft of a Management Control Manual has been prepared and distributed to the Board of Directors for review. Training has begun for staff including all staff of the CFO's department, and exposure to the issue of management control is now part of the new employee orientation program.

3. Cash reconciliation, updated above, proceeds as an important process for achieving the goal of auditable statements.

4. A recommendation codifying the Corporation's approach to grants accounting, including issues of advances, expense recording, grant closeout, and grant liability calculations is being prepared for CFO review. This work includes a review paper by Price Waterhouse which offered advice on many of the issues.

5. Information system changes have played a major part in our plan for auditable statements. With the current efforts to implement a grant review and award system within the Corporation, we are implementing a movement away from two separate systems for grant activity. Part of this effort will be the movement of all Corporation grants to the HHS Payment Management System (PMS) with which we are also implementing an electronic interface to our general ledger (GL). This all should greatly improve the consistency and accuracy of information in the GL and reduce the reconciliation burdens. At the same time, we have implemented an electronic interface to the GL for all payment transactions from the National Trust. We also are improving the process and the supporting documentation for the calculation of liability in the National Trust and the subsequent recording of that liability on the GL.

6. We postponed the effort to implement a new financial management system, originally intended for implementation with the start of fiscal year 1998, by one year in order to ensure that we have an opportunity to improve the underlying business processes which provide a foundation for what is recorded in the system and because we did not feel the schedule could be met with the competing demands on the organization's resources, many of which relate to other issues of auditability and related system development efforts. In Conference Report H. Report 104–537 which accompanied H.R. 3019 making appropriations for fiscal year 1996, Congress approved report language suggested by the Senate committee which "urges the Corporation to submit a reprogramming proposal for up to $3,000,000 to carry out financial management system reforms if the Chief Financial Officer determines such additional resources are needed." We have formally requested the reprogramming

of these funds, and we are planning the implementation of a new financial system during 1998.

7. We have put a significant effort into improvements of the process for cost share arrangements that underlie a number of our VISTA programs. Weaknesses in this area had resulted in understated receivables in the past. We believe that this will result in improvement to this important area of the financial statements.

Senator MIKULSKI. When do you think it would be a reasonable expectation for you to be able to present this background brief and work-through plan to the committee?

Ms. CUNNINGHAME. I could do that within 1 week easily, depending on the necessary requirements.

Senator MIKULSKI. Well, I think it would be very useful if we had that as quickly as you could produce it with efficiency and accuracy for both the chairman and myself, so we can see this, because part of what is being discussed is not only to continue the existing program and expand it, but some pretty new programs. I think the committee will feel that before it can undertake anything new there has to be confidence on these workout issues. We thank you for that.

Also, for the record we would need a description also about why the attrition rate. Again, we are not looking for excuses, but we are looking for crisp, clear explanations so that we could have this, because as appropriators we really need to know is our money being well spent and are we getting the outcome for which the program was created.

I think if we had those two reports we could among ourselves discuss next steps. So we thank you and we look forward to that.

[The information follows:]

ATTRITION IN AMERICORPS

*Program Years One, Two, and Three*

The rate at which Members complete their term of service, or conversely, the rate at which they fail to do so, can be a valuable indicator of program health. The Corporation for National Service is well aware of the value of attrition rates and systematically analyzes program attrition and its causes. Low attrition can be indicative of high Member satisfaction, which in turn, suggests careful recruitment, good training, meaningful service projects and adequate supervision, among other strengths. While a high attrition rate does not point to a specific problem, it may be a symptom of underlying factors that deserve consideration.

That said, in some cases, Members leave their service program early for reasons that are not indicative of programmatic problems. In the data provided here we provide attrition rates adjusted rates to exclude early exits that are not reflective of program quality.

AmeriCorps programs, at the discretion of the program director, are permitted to make the determination that a Member is departing early because he or she faces compelling personal circumstances that make completing the program an unreasonable hardship.

In addition, some Members leave their program early to take advantage of significant opportunities for personal development or growth, for example, educational or professional advancement. Although AmeriCorps is not a jobs program, persons who leave their service program to enter school, obtain employment or join the military constitute a positive outcome for the nation as well as for themselves. Because individuals in the circumstances described above do not reflect upon the effectiveness of their programs, we believe it appropriate to exclude them in determining a meaningful attrition rate.

*Overall Attrition in AmeriCorps*State/National*

*Attrition in Year One (1994–1995).*—Attrition in Year One was 20 percent. This rate compares favorably with attrition rates for college freshmen, the Peace Corps, youth Corps and HUD Youth Apprenticeship programs.

*Attrition in Year Two (1995–1996).*—Year Two attrition is currently about 18 percent, adjusted as described above. Enough Members remain ''on the books'' for 1995–1996 that we cannot yet provide a final accounting. As the attached chart suggests, the overall pattern of attrition has remained constant.

*Attrition in Year Three (1996–1997).*—Year Three attrition is difficult to estimate because most programs are still in their fourth quarter and some are in their third. At present, nearly 90 percent of those who enrolled in Year Three are still serving.

*Additional Attrition Issues*

The socio-demographic patterns reported last year in our attrition data remain visible, as demonstrated by the two-year attrition rates by educational attainment. Beginning in Year Two, we began collecting Member income data by sample only and cannot make direct comparisons to the attrition *x* income data provided last year. However, data from our sample survey, which included Members who had left early, suggests strongly that their remains a strong relationship between family income and attrition, with Members from lower income backgrounds being more likely to leave early.

ATTRITION RATE BY EDUCATIONAL ATTAINMENT—PROGRAM YEARS ONE AND TWO

[Percent of members]

| Education attained | Fiscal years | |
|---|---|---|
| | 1994–95 | 1995–96 |
| Less than high school | 34 | 36 |
| GED | 31 | 32 |
| Technical school | 21 | 19 |
| HS graduate | 18 | 20 |
| Some college | 18 | 19 |
| Associate degree | 16 | 15 |
| College graduate | 9 | 8 |
| Graduate study | 12 | 10 |
| Graduate degree | 17 | 12 |

Senator MIKULSKI. Which then takes me, Senator Wofford, to the America Reads Program and the national summit. Could you tell me what is the purpose of the national summit and what you think, what will be the outcomes and what is the purpose and what role this committee or national service will play in it?

Mr. WOFFORD. The President's summit was proposed originally by George Romney as a way to take the idea of national service—both large scale volunteering and national service of the AmeriCorps variety—out of the political football field and move it into a true nonpartisan structure.

The summit is assembling delegations from some 130 communities, cities and rural areas as well as delegations from all 50 States chosen by their Governors.

Senator MIKULSKI. What will it do?

Mr. WOFFORD. The summit is starting a 3-year campaign to achieve five goals for children and youth in this country that every parent and every grandparent wants for their children: one, that there be a caring adult in the life of every child that needs one, a tutor, a mentor, a coach, including the 1 million tutors needed for the America Reads campaign; two, structured activities in safe places for every child and young person in this country in the non-school hours; third, a healthy start—immunization and access to health care and incentives for healthy behaviors; four, effective education, including the ability to read and marketable skills ac-

quired through school to work experience; and fifth, that every young person gets asked and has the opportunities themselves to serve.

The process of the summit is commitments by major organizations of all the sectors of society and by individuals and communities for new action—quantum leaps and value added—toward those five goals.

Senator MIKULSKI. That is what they are going to do?

Mr. WOFFORD. Yes.

Senator MIKULSKI. And then after the summit is over, who will be in charge or overseeing that all of this happens in some organized way, so we do not have just volunteer chaos?

Mr. WOFFORD. We expect the Presidents to continue to work together. General Powell will be a very active chairman.

Senator MIKULSKI. What will be the mechanism to operationalize——

Mr. WOFFORD. The mechanism will be an organization that General Powell will lead, with the continuing support, we trust, of the Presidents. It is an organization that will both seek to develop large scale resources to apply to local organizations around the country.

Senator MIKULSKI. Senator Wofford, will that be an organization not created by Government?

Mr. WOFFORD. It will not be created by Government. I am personally not taking any part in the organization of that organization.

It will be a new national organization created to be essentially an umbrella organization to coordinate those volunteer organizations, and the private sector entities that are making a substantial commitment.

It will be a campaign based in the private sector, led by General Powell not trying to compete in offering service but trying to assemble resources from commitments from corporations and organizations for local groups. The community delegations at Philadelphia are coming with a commitment to go back to their communities to organize local summits to coordinate those campaigns locally.

Senator MIKULSKI. Let me just go back to what I was trying to ask, Mr. Wofford, which is, I have been through good intention rallies before and we have some of the finest participants leading this, and so we just do not want it to be a rally where, I am going to make sure that I deliver 2,000 meals on wheels to the elderly homebound. All of these are good intentions, and then if we are going to have that, like the commitment of a Motorola, an IBM, local corporations, scouts, Boy Scouts, then all I was asking was how that will be followed up so it is just not a photo op, it is just not a pep rally, and so on, and that we have a sustained saturation effecting communities.

So what you are saying is that there will be an organization created that a very distinguished American, General Powell, will chair, and this will be an entirely new entity not created by Government or funded by Government, is that right?

Mr. WOFFORD. He is saying that, and he is going to do that. It requires that same spirit——

Senator MIKULSKI. But are you not the President's person on that?

Mr. WOFFORD [continuing]. Senator Mikulski, that——

Senator MIKULSKI. Are you not the President's point person in organizing the summit?

Mr. WOFFORD. The two organizations that jointly carried the ball with George Romney's idea are ours, the Corporation and myself actively, and the Points of Light Foundation.

Senator MIKULSKI. Excellent.

Mr. WOFFORD. And the two of us have worked together. Ray Chambers, founder of the One to One Partnership, is chairman of our joint board steering committee for this. But General Powell will be carrying the ball from the summit on.

Senator MIKULSKI. General Powell is saying that. Are we all saying that before we go to the summit?

Mr. WOFFORD. General Powell said it very strongly when he accepted the chairmanship at the White House. In fact, he now says it is at least a 5-year campaign, that he will throw a good part of his life into seeing that we follow through.

Senator MIKULSKI. And that is his commitment?

Mr. WOFFORD. That is his commitment.

Senator MIKULSKI. It is an extraordinary commitment.

Mr. WOFFORD. And he is driving the commitment process. He has what he calls the sweat test. When a corporation or organization makes the commitment required to come to Philadelphia, he notches it up until he sees sweat on the forehead of the CEO who has offered for example to adopt 100 schools. He says, well, what about 1,000? And until there is a little sweat on the forehead of the person, he has not reached the right notching-up point.

Senator MIKULSKI. Well, that sounds great. Of course, we are sweating here about how we are going to fund all the agencies, and, therefore, we want to then be clear on what is the role of national service, how we can be a facilitator in this. I think we are looking forward to this and what will be the followup.

I see that my time has expired and we will look forward to other conversation on the America Reads Program. Thank you very much and this sounds like a very, very exciting opportunity.

Mr. WOFFORD. Thank you, Senator.

Senator BOND. Thank you, Senator Mikulski.

Senator Boxer.

Senator BOXER. Mr. Chairman, I simply want to highlight something that Senator Wofford did not get a chance to go into in detail. As one of the authors of the Violence Against Women Act, I note that in Iowa 20 AmeriCorps members in the Iowa Coalition Against Domestic Violence have made 12,464 contacts with victims of domestic abuse, assisted over 1,000 women in obtaining protective orders, and provided 371 educational programs for Iowans ranging from elementary school children to senior citizens.

I wanted to point out something that Steve Merrill said, the Governor of New Hampshire, where you took that basic idea and instituted it there. He said:

The national service program has been a great success in the State of New Hampshire and I anticipate it will continue to be in the future. These motivated individ-

uals make AmeriCorps work for New Hampshire and I am pleased to be a partner in the process.

I think there are certain issues that just cry out for attention in our Nation, and with a friend helping you get through it it means a great deal, because when a woman is feeling that there is no one to help her through—and it is usually a woman; sometimes it is a man who is on the other end of violence, but about 98 percent of the time it is a woman—and the children are impacted and so on, you do need that helping hand.

So it sounds to me like you have come up with some idea here. I was wondering if you had any plans to extend that program to other States as well.

Mr. WOFFORD. You can view the whole of national service, Senator Boxer, as the Corporation's work as a kind of R&D—research and development program—in which programs are being tried in all 50 States. One of our jobs is to find what works and what does not work; to try to spread what works and to share the state of the art. When there is a pilot program that really works, such as the 11th and 12th grade kids in Philadelphia schools being taught to tutor 2d graders three afternoons a week a couple of hours one on one and it works to raise the reading level of the second graders and it works to raise their own reading level, the 11th, 12th graders——

Senator BOXER. Talking about domestic violence, I was just asking you on that one because my State——

Mr. WOFFORD. I am with you.

Senator BOXER. There are so many calls from California from our cities to the hotline, and it seems to me we could really use this type of program.

Mr. WOFFORD. New Hampshire is one of the very best programs. We convened the State executive directors of the State commissions. We convened, we are about to convene, the chairmen of those commissions.

We try to spread the programs that work through publications, E-mail, etc., so that pilots perform the function of a pilot and you ignite the furnace. The New Hampshire Program is one of them we would like to spread around the country.

Senator BOXER. So in our State, so if our State wants to have this program then they could initiate it?

Mr. WOFFORD. Indeed. The executive director of your commission in California, Linda Forsyth, is very aware of that program. I am sure she has thought about it. She is in town right today. I know she is very interested in that subject. California has one of the most inventive and aggressive commissions, and they are the source of many of the best pilot programs that we are trying to spread to other parts of the country.

Senator BOXER. Good, because a couple of our cities had the most calls to the domestic hot line.

Thank you very much.

Mr. WOFFORD. It is a major issue, and if we could contribute more to it, that is good.

Senator BOXER. Thank you, Mr. Chairman.

Senator BOND. Thank you very much, Senator Boxer. Thank you very much, Senator Wofford.

## U.S. COURT OF VETERANS APPEALS

**STATEMENT OF HON. FRANK NEBEKER, CHIEF JUDGE**

### OPENING STATEMENT OF CHRISTOPHER S. BOND

Senator BOND. Next, panel No. 2. I would like to welcome the Hon. Frank Q. Nebeker, Chief Judge of the U.S. Court of Veterans Appeals. Chief Judge Nebeker will be testifying on the administration's fiscal year 1998 budget request for the Court of Veterans Appeals, which totals $9.4 million, of which $850,000 is for the pro bono program to provide legal representation to veterans without counsel.

The overall increase of $150,000 from fiscal year 1997 is attributable entirely to the pro bono program. The operational costs of the court would be held at the fiscal year 1997 level by cutting costs in such areas as travel and security and maintenance contracts.

I am most interested in hearing the court's assessment of actions being taken at the VA to address the backlog of benefits claims and the court's appraisal of the pro bono program.

Again, Judge, as I said before, we would appreciate your submitting a full statement for the record. Unfortunately, we are growing short of time in a busy day and would welcome your summary and your comments.

Judge NEBEKER. I will be very brief.

Senator BOND. Thank you very much, Judge.

Judge NEBEKER. You have obviously summarized this budget situation for the court and the pro bono program and I will not repeat it.

### CASE BACKLOG

Your question was, I think, with respect to the delay or the backlog caused in the court's processing of cases, and indeed the problem has surfaced. The delay is in the area of getting the record on appeal together and in filing the Secretary's brief after the appellant has filed his or her brief.

Group VII of the General Counsel's Office is the one that represents the Secretary before the court. They have been decimated by vacancies. They have been troubled by other personnel problems and their morale is low. They have got to have help. The resources were not given to them by the general counsel, but that matter has been brought to her attention and I am assured that the situation will be remedied as rapidly as is possible.

Senator BOND. Thank you, sir.

BUDGET SUMMARY

Judge NEBEKER. As I observed in my written statement, the court's budget is flat this year, the same as it was last year. We have to maintain—though we are cutting back on the FTE's, we have to maintain good service for the many pro se appellants who appear before the court. That is somewhat of a labor intensive, if you will, undertaking.

The only other point I would like to make this morning is, that again we ask that in your minds as you make the appropriations decision, keep the court's operating budget separate and apart from the pro bono program, until such time as the pro bono program, can be authorized and made independent.

We understand that must be done before the appropriation process does not run through the court. But the court can act as a conduit, provided there is not a conflict in its operating budget over what the program needs.

I will not address the merits of the pro bono program, as they are capable of doing that themselves.

That would conclude my comments.

[The statement follows:]

PREPARED STATEMENT OF FRANK Q. NEBEKER

Mister Chairman and distinguished members of the committee: On behalf of the Court, I appreciate the opportunity to present for your consideration the fiscal year 1998 budget of $9,379,804 for the United States Court of Veterans Appeals.

The Court's total fiscal year 1998 budget request contains the same dollar amount for personnel and operations as in the Court's fiscal year 1997 appropriation. It also includes $850,804 requested by the Pro Bono Representation Program (Program), which is 121.5 percent of the $700,000 appropriated for fiscal year 1997. The Program has provided its own supporting statement for its budget request.

Last year I urged that the Pro Bono Representation Program be authorized and funded outside the Court's appropriation. I outlined the reasons for the Court's concerns with the continued inclusion of the Program's funding in the Court's appropriation. The Court continues to be of the view that such a funding method impermissibly links the Court to one class of litigants, and thereby exposes the Court to an appearance of partiality and a consequent erosion in the public's trust and confidence in the judicial review of veterans' claims. I ask again that the funding for the Program be separated from the Court's appropriation, not only in the budget deliberations in Congress, but in the actual budget enactment. To that end, I urge the authorization of the Program and legislation permitting its independent budget.

Notwithstanding these reservations, and consistent with Congress' direction, the Court is forwarding the Program's fiscal year 1998 request for $850,804 as an appendix to the Court's submission and, consistent with that direction, is including that amount in the Court's total fiscal year 1998 budget request. The Legal Services Corporation administers the grants for the Program and, according to its evaluations, the Program is working the way it should. The Program has provided its own supporting statement for its budget request, which, as noted, represents a 21.5 percent increase over the $700,000 appropriated for fiscal year 1997.

The Court has kept a flat budget by continuing a number of cost-saving measures, including a 25 percent reduction in the budget allotted for travel, with no funding requested for Court hearings outside Washington. Also, as I stated in my testimony last year, the Court now is holding its judicial conference every other year, rather than annually. This event focuses on continuing education for the Court's practitioners and is held locally. Of even more significance, the Court is requesting funding for only 79 full-time equivalent (FTE) positions in fiscal year 1998 which is a voluntary reduction of 2 FTE positions from the fiscal year 1997 authorized FTE level, and matches the fiscal year 1998 FTE target level recommended by the Office of Management and Budget in its implementation of the National Performance Review. The requested 79 FTE positions are required to maintain high-quality service

to litigants seeking judicial review, particularly those who come to the Court unrepresented.

As the Court's budget statement illustrates, in a chart the Clerk has compiled, after a drop in the number of appeals in fiscal year 1994, the numbers have continued to climb in fiscal year 1995 and fiscal year 1996, and the upward trend seems to be continuing. The number of denials by the Board of Veterans' Appeals, from whose decisions the Court's appeals derive, increased from 6,400 appeals in fiscal year 1995 to 10,455 appeals in fiscal year 1996. Furthermore, as noted in the Court's budget submission, the statistics kept by the Board of Veterans' Appeals (Board) on "denials" do not include Board decisions that deny some, but not all, of the benefits sought. The denials in such cases are also appealable to the Court. Thus, the number of pending cases may continue to increase at an even greater rate than is predictable as a set percentage of the number of full Board "denials." The percentage of unrepresented appeals has fallen from 80 percent in fiscal year 1995 to 72 percent in fiscal year 1996. However, this rate remains much higher than the 46 percent unrepresented civil appeal rate in U.S. courts of appeals. While the Court has, voluntarily, kept pace with the recommendations of the National Performance Review, which propose an 11.5 percent FTE reduction over six years, further reductions in staff may need to be re-evaluated based on the likelihood of an increased caseload and a percentage of pro se appellants that continues to be relatively high.

It is my understanding that the Independent Budget Veterans Service Organizations (IBVSO's) have reached similar conclusions as to increasing caseload in the chapter on the U.S. Court of Veterans Appeals in their Independent Budget for Fiscal Year 1998. The IBVSO's document a presently rising caseload and oppose downsizing of the Court for that reason.

On another matter, I am appending to this testimony a copy of my letter to Chairman Specter emphasizing the importance of passing Title II of the legislative proposal submitted last year to make the Court's retirement/survivor program comparable to the systems of other Article I Courts. As I point out in my letter, the legislative proposal was initially submitted in response to Congressional inquiries regarding the Court's caseload relative to the requisite number of judges on the Court and regarding the comparability of the Court's judicial retirement/survivor program.

Following last year's transmittal, there was an increase in the number of notices of appeal filed with the Court, and a consequent increase in the number of pending cases. Some veterans service organizations have either opposed enactment of Title I or, more cautiously, favored a "wait and see" approach to it. Based on the increase in notices of appeal, the "wait and see" approach has been shown to be the wiser course as to Title I, and the Court recognizes its merit. Accordingly, the Court does not press consideration of Title I by the Committee.

I am aware of no negative comments with regard to the provisions of Title II. I ask for your active support in obtaining enactment of Title II to make the Court's retirement/survivor program more comparable with other Article I Court programs. Because of Judge Hart Mankin's death in May 1996, his widow, Ruth Mankin, is now a survivor under the Court's survivor annuity program. Survivors under the Court's annuity program are at a considerable disadvantage, over time, in comparison to the survivors of other deceased Article I judges covered by the Survivors' Annuity Systems enacted to provide such benefits to them. I ask that you take expeditious action to enact Title II, which is estimated to have an actuarially insignificant cost impact.

In conclusion, I appreciate this opportunity to present the Court's budget request for fiscal year 1998. On behalf of the judges and staff, I thank you for your past support and request your continued assistance and favorable report to the Appropriations Committee on our budget request.

---

## THE VETERANS CONSORTIUM PRO BONO PROGRAM

### REVISED FISCAL YEAR 1998 BUDGET

The Veterans Consortium Advisory Committee has revised the proposed fiscal year 1998 budget, to reflect the fact that we have found ourselves able to fill, through personnel donated by one of the Consortium's constituent veterans service organizations, a position that we had expected to have to fund out of fiscal year 1998 grant funds. We have also adjusted the Program budget to reflect the additional cost of $5,000 for an audit in compliance with OMB Circular A–133, required for the first time next year by LSC. The result of these adjustments is that the over-

all budgeted expenditures for fiscal year 1998, set in the original budget at $850,804, are reduced by $57,487, to a total of $793,317.

A spreadsheet setting out the revised budget in detail is attached hereto as Exhibit A; a summary of significant statistical information regarding the Program is attached as Exhibit B. This memorandum will first provide an overview of the budget as revised, and then address in some detail the increases contemplated over the current fiscal year 1997 budget and the changes from the fiscal year 1998 budget as originally proposed.

OVERVIEW

The revised budgeted expenditures of $793,317 represent an increase of 13.3 percent over the $700,000 appropriation for fiscal year 1997; but only a 6.65 percent increase over the budget on which the Program is currently operating, which calls for expenditures of $743,838. That budget figure was the amount of the appropriation we sought for fiscal year 1997; and although the appropriation was for a lesser amount, we have been able to operate on the basis of the original budget because there were unexpended funds from the previous fiscal year, largely the result of curtailed operations in fiscal year 1996 resulting from uncertainties as to whether the Program would be able to continue to operate at all.

It is pertinent to note that the level of expenditures contemplated by the revised fiscal year 1998 budget happens to correspond quite closely to the amount of the appropriations for the Program in fiscal year 1994 and fiscal year 1995, namely, $790,000—and without any adjustment for inflation for the four-year interval from fiscal year 1994 to fiscal year 1998. Indeed, that figure was the amount that the Court of Veterans Appeals contemplated would also be provided for the Program for fiscal year 1996: the Court requested an appropriation for the Program for that fiscal year of $678,000, but that lesser figure took into account $112,000 that had been conserved by the Program in prior years, and that remained available for Program expenditures in fiscal year 1996. The Court observed, in submitting the fiscal year 1996 request, that "this is a nonrecurring reduction [in the requested appropriation] that could not be maintained in future years without programmatic changes that the Court does not now anticipate would be desirable."

By reason of the overall budget reductions in fiscal year 1996, however, the Program wound up operating on a revised budget, covering both the "A" and "B" grants, of $633,931. This revised budget was $34,278 less than the amount actually expended in the previous fiscal year, $44,069 less than the $678,000 in new appropriations for the Program that had been in the Court's budget submission, and $156,069 less than the $790,000 contemplated by the Court's fiscal year 1996 budget submission. As we pointed out in our fiscal year 1997 budget submission, the amount on which we were operating in fiscal year 1996 was insufficient for the Program to operate as originally envisioned, and we needed to make up for that year's shortfall if the Program was to resume operating at full steam. Mindful of budgetary exigencies, however, we did not then ask that the Program be restored to its full prior level of appropriated funding. That is, however, what we are asking now.

DETAILED EXPLANATION OF THE REVISED FISCAL YEAR 1998 BUDGET

The proposed increase in expenditures from the fiscal year 1997 budget reflects both the need to deal with the backlog of cases in the Case Evaluation and Placement Component, resulting from a period when that component was understaffed, and an anticipated continuing increase in the number of BVA decisions and consequent appeals to the Court and a corresponding increase in the Program's caseload. Thus, in the first six months of fiscal year 1997 we received 294 PRF's (Participation Request Forms), compared to 217 in the comparable period in fiscal year 1996, and placed 120 cases with volunteer lawyers as compared to 93: increases of 35 percent and 29 percent, respectively.

Since personnel costs—the salary and benefits of some of the individuals performing services for the Program that are reimbursed out of grant funds—account for the major part of the Program budget (they were 70.2 percent in fiscal year 1997, and are 74.5 percent in the revised fiscal year 1998 budget), they account for most of the increase as well. These personnel costs relate to a portion of the time of the personnel who staff the Outreach and the Education Components, and the entirety of the time of most of the personnel who staff the Case Evaluation and Placement Component (the services of the other staff being provided free of charge to the Program). In all instances the staff are actually employees of one or the other of two of the Consortium's four constituent organizations—National Veterans Legal Services Program (NVLSP) or Paralyzed Veterans of American (PVA)—which are reimbursed from grant funds for the appropriate portion of their salary and benefits.

Table A shows in summary form the number of persons providing services for each component, and the number of Full-Time Equivalent (FTE) positions to be paid out of grant funds in fiscal year 1997 and fiscal year 1998.

TABLE A.—PRO BONO PROGRAM PERSONNEL AND FTE DISTRIBUTION

| Component | Total No. of personnel providing some service to the program | Total FTE reimbursed by grant, fiscal year 1997 | Total FTE to be reimbursed by grant, fiscal year 1998 |
|---|---|---|---|
| Outreach | 6 | 0.17 | 0.21 |
| Education | 10 | 0.96 | 1.05 |
| Case evaluation and placement | 10 | 7.5 | 8.0 |
| Total | 26 | 8.63 | 9.26 |

A fuller breakdown by component follows.

*I. Case Evaluation and Placement Component—$575,383*

The revised fiscal year 1998 budget contemplates an increase of $39,262 over the fiscal year 1997 budget for the Case Evaluation and Placement Component (referred to in the budget spreadsheet as the "Screening" component). This is in place of the $99,249 increase reflected in the original fiscal year 1998 budget.

*A. Personnel*.—There are three categories of personnel staffing this Component: lawyers, non-lawyer veterans law specialists, and support staff.

Two lawyers, the Director and the Deputy Director, function full time as such in the Case Evaluation and Placement Component, and the entirety of their personnel cost is reimbursed by the Program—in one instance to PVA and the other to NVLSP. Thus, the lawyer FTE for this Component reimbursed from grant funds, in both fiscal year 1997 and fiscal year 1998, is 2.0.

Veterans law specialists review the VA claims file and BVA decision to determine whether or not each case contains an issue that warrants referral to a lawyer. Veterans law specialists come from the constituent Veterans Service Organizations and are among the most experienced non-lawyer service officers these organizations have to offer.

It was originally contemplated that there would be four full-time veterans law specialists, plus part-time help equivalent to half the time of a fifth, in the Case Evaluation and Placement Component in fiscal year 1997—two of the full time specialists being supplied, on a reimbursable basis, by PVA, and the other two donated by Disabled American Veterans (DAV) and The American Legion, respectively. However, in late fiscal year 1996, The American Legion recalled its specialist to the organization's national office and could not furnish a replacement until midway through the fiscal year. As a result of this and other personnel difficulties, the Component operated with only 3 FTE veterans law specialists for the first five months of the year. This fact, combined with increased filings, had created a backlog of some 141 cases as of May, 1997. At the time the fiscal year 1998 budget was prepared, this Component had a total of 3.5 FTE veterans law specialists, 2.5 of them reimbursed by the Program and the other donated by DAV. The original fiscal year 1998 budget contemplated an increase of 1.5 FTE, to bring the total number of specialists (including one donated specialist) to five. Since the restoration of the American Legion's donated specialist, however, the need for one additional reimbursed specialist has been eliminated, and the budget has been reduced accordingly.

There are three full-time administrative support staff in the Case Evaluation and Placement Component, all employees of NVLSP, and all reimbursed out of Program funds.

The levels of salaries and benefits paid to the personnel who staff the Program are of necessity governed by the general personnel policies of the constituent organizations of which they are employees—i.e., PVA and NVLSP—and to which they may return in the event of termination of the Program or rotation of personnel by the organizations involved. Both of those organizations expect to increase their staff salaries generally by 5 percent, of which 3 percent will be an across-the-board cost of living increase and 2 percent will be allocated for merit raises. The increases are reflected in the personnel costs of all three Components of the Program in the fiscal year 1998 budget.

*B. Travel/Continuing Legal Education*.—The revised fiscal year 1998 budget, like the original one, includes an increased allocation of $1,500 for travel/CLE (to $2,500)

to be used for continuing legal education for lawyer staff of this Component. This is largely offset by a reduction of $1,000 in the amount allocated for travel/CLE for the Education Component.

*C. Audit.*—Audit costs have been increased by an additional $2,500 in the revised fiscal year 1998 budget to reflect the Component's share of the increased cost of the annual audit by reason of the new LSC requirement, mentioned above.

*D. Property Acquisition and Contract Services.*—These will decrease by $10,000 from the amount budgeted for fiscal year 1997. Major improvements to the databases will be completed in fiscal year 1997.

*II. Outreach Component—$25,157*

The revised fiscal year 1998 budget calls for a $6,537 increase over the fiscal year 1997 budget for the Outreach Component: $500 more than the original fiscal year 1998 budget. As indicated below, all but $1,776 of the increase is in personnel costs.

*A. Personnel.*—These costs are budgeted to increase by $5,349 because we anticipate a continued increase in recruiting needs. We assume a greater need for volunteer lawyers in fiscal year 1998 because of the known and anticipated increase in the number of BVA decisions; the budget also assumes that we will continue outreach efforts outside the Metropolitan Washington area. Personnel costs include an increase of 5 percent, as discussed previously under Case Evaluation and Placement.

Three NVLSP lawyers devote a portion of their time to the Outreach Component; and that portion of their personnel cost is reimbursed by the Program. The aggregate lawyer FTE for the Outreach Component reimbursed from grant funds in fiscal year 1997 is 0.07; the FTE contemplated for fiscal year 1998 remains at 0.07.

Three NVLSP non-lawyers also function for part of their time in the Outreach Component; and that portion of their personnel cost is reimbursed by the Program. The aggregate non-lawyer FTE for the Outreach Component reimbursed from grant funds in fiscal year 1997 is 0.10; the FTE contemplated by the fiscal year 1998 budget is 0.14.

*B. Other.*—The only change from the original fiscal year 1998 budget to the revised one is an increase of $500 in the audit line to reflect the Outreach Component's share of the increased cost of the annual audit. The remainder of the $1,776 difference in non-personnel expenses between fiscal year 1997 and fiscal year 1998 reflects line item adjustments based on past experience.

*III. Education Component—$126,545*

The revised fiscal year 1998 budget calls for an increase of $12,998 over the fiscal year 1997 budget: $2,000 more than the original fiscal year 1998 budget.

*A. Personnel.*—Personnel costs are budgeted to increase by $8,934.

A total of 6 NVLSP lawyers function in the Education Component, and a portion of their personnel cost is reimbursed by the Program. We anticipate an increase in mentoring duties, due to the cumulative effect from previously assigned but still pending cases. We plan to contain this cost, however, by assigning more mentoring duties to personnel with lower personnel costs. The aggregate lawyer FTE for the Education Component reimbursed from grant funds in fiscal year 1997 is 0.51; the FTE contemplated for fiscal year 1998 is 0.54.

Four NVLSP non-lawyers function in the Education Component, and all four of them have a portion of their personnel cost reimbursed by the Program. The cost of grant administration has been increased to 25 percent of the time of both the Grant Administrator and the Administrative Assistant, based on past experience and an anticipated increase in the Grant Administrator's time required for audit preparation and contract reporting. The aggregate non-lawyer FTE for the Education Component reimbursed from grant funds in fiscal year 1997 is 0.45; for fiscal year 1998 it will be 0.51.

*B. Other.*—As with the Outreach Component, the only change with respect to the Education Component, from the original fiscal year 1998 budget, is an increase in the audit costs, by $2,000, to reflect the Education Component's share of the increased cost of the annual audit pursuant to the new LSC requirement. The remainder of the difference from the fiscal year 1997 budget reflects various adjustments based on past experience.

*IV. "B" Grant—$44,232*

This line assumes a total of 24 cases at a cost of $1,843 per case. This represents a 3 percent per case increase over the fiscal year 1997 budget figure of $1,785 per case; it also reflects a reduction from the total number of budgeted cases (30) in both fiscal year 1996 and fiscal year 1997, as we continue to fine-tune this requirement.

*V. LSC Oversight—$20,000*

DONATED SERVICES

The vast majority of services rendered to the Pro Bono Program are donated.

The most impressive contribution is the value of the legal services provided by volunteer lawyers recruited by the Program. For fiscal year 1996, for example, the value of the pro bono representation provided by volunteer attorneys under the Program was estimated to be $2,255,618—providing, when combined with the contributions of the participating organizations, a return of some 3 to 1 on the appropriated federal funds.

The American Legion and the DAV receive no reimbursement for the salary or related expenses for the full-time veterans law specialists they provide to the Program. Those two organizations have not reported the cost of providing these specialists, but it is obviously comparable to that of the two specialists whose costs are reimbursed from grant funds.

Neither DAV nor PVA receives any reimbursement for the time spent by its lawyers in providing mentoring services for the Education Component. Together, these contributions can be conservatively estimated at $20,000 annually.

None of the participating organizations receives any reimbursement for time spent by their representatives in connection with the activities of the Consortium's Advisory Committee. (The fiscal year 1996 estimated value of that time was $101,524.)

The total value of contributions by the participating organizations (with the exception of the unreported value of the contributions by the American Legion and DAV, mentioned above) in fiscal year 1996 was estimated at $202,580.

CONTRIBUTIONS OF EAJA FEE AWARDS BY LAW FIRMS

As previously reported, the Program has on seven occasions since late 1995 received unsolicited donations from law firms (four of the donations being from one firm), in each case representing part or all of an Equal Access to Justice (EAJA) fee award recovered by the donating firm in a case taken under the Program. (We have also received a $20 contribution from a grateful veteran.) All four of the contributing firms are large firms; among such firms it is quite commonly firm policy to give away to one or another pro bono cause fee awards recovered in pro bono cases—generally to the organization at whose behest the matter was taken on. The total of such donations (including the $20 one) to date is $45,054.08.

The Advisory Committee has established a special account to which all such contributions will be earmarked, to be used for Program activities for which grant funds have not hitherto been sought or applied. It is the Committee's view that the uses made of such donated funds must be ones that the donating firms would deem appropriate, and that would tend to elicit other donations by participating firms: thus, it would be counterproductive to treat the donated funds as an offset for appropriated funds. The Committee has decided that initially the earmarked funds will be used for three purposes: to fund outreach activities in other jurisdictions; to fund presentation of the lawyer training program in other jurisdictions; and, in selected cases, to pay expenses incurred by solo practitioners who wish to take cases under the Program and who would find it more feasible to participate if certain essential costs are defrayed by the Program.

EXHIBIT A

**Veterans Consortium Pro Bono Program**
**Proposed Budget -- FY 1998**

REVISED
6/2/97

| | | Outreach FY 98 | Education FY 98 | Screening FY 98 | Proposed Budget 10/1/97-09/30/98 | Outreach FY 97 | Education FY 97 | Screening FY 97 | Budget 10/1/96-09/30/97 | Actual 10/1/95-09/30/96 |
|---|---|---|---|---|---|---|---|---|---|---|
| Salaries - Attorneys | 1 | 7,754 | 47,598 | 135,006 | 190,358 | 7,379 | 48,004 | 127,845 | 183,228 | 125,665 |
| Salaries Non-attorney representatives | 2 | 0 | 0 | 149,749 | 149,749 | | | 123,236 | 123,236 | 66,754 |
| Salaries - Administration & Support | 3 | 7,545 | 25,985 | 86,017 | 119,547 | 3,518 | 20,261 | 81,808 | 105,587 | 96,599 |
| Employee Benefits | 4 | 3,250 | 15,490 | 112,652 | 131,392 | 2,303 | 11,874 | 95,954 | 110,131 | 71,076 |
| Total Personnel | | 18,549 | 89,073 | 483,424 | 591,046 | 13,200 | 80,139 | 428,843 | 522,182 | 360,094 |
| Space - Rent | 6 | 2,003 | 9,654 | 56,689 | 68,346 | 1,915 | 9,000 | 61,448 | 72,363 | 62,127 |
| Equipment Rental & Maintenance | 9 | 300 | 1,500 | 5,463 | 6,953 | 200 | 1,500 | 5,253 | 6,953 | 8,859 |
| Office Supplies & Expense | 10 | 1,500 | 4,500 | 7,180 | 13,180 | 1,275 | 4,100 | 10,000 | 15,375 | 15,445 |
| Telephone | 11 | 280 | 818 | 7,177 | 8,275 | 280 | 870 | 7,850 | 9,000 | 7,412 |
| Travel/Continuing Legal Education | 12 | 150 | 500 | 2,500 | 3,150 | 150 | 1,500 | 1,000 | 2,650 | 852 |
| Library | 15 | 200 | 1,500 | 2,850 | 4,550 | 150 | 1,000 | 1,850 | 3,000 | 3,227 |
| Insurance | 16 | 250 | 1,000 | 4,000 | 5,250 | 200 | 700 | 4,000 | 4,900 | 3,605 |
| Dues and Fees | 17 | 75 | 300 | 100 | 475 | 50 | 195 | 50 | 295 | 305 |
| Audit | 18 | 750 | 3,200 | 4,000 | 7,950 | 200 | 623 | 827 | 1,650 | 2,275 |
| Property Acquisition | 19 | 0 | 500 | 0 | 500 | 0 | 0 | 10,000 | 10,000 | 27,555 |
| Contract Services to Applicant | 21 | 0 | 0 | 2,000 | 2,000 | 0 | 0 | 5,000 | 5,000 | 707 |
| Other | 22 | 1,100 | 16,000 | 0 | 17,100 | 1,000 | 15,920 | 0 | 16,920 | 2,764 |
| Total Non-Personnel | | 6,608 | 39,472 | 91,959 | 138,039 | 5,420 | 35,408 | 107,278 | 148,106 | 135,133 |
| Total "A" Grant | | 25,157 | 128,545 | 575,383 | 729,085 | 18,620 | 115,547 | 536,121 | 670,288 | 495,227 |
| "B" Grant | | 24 CASES @ $1.843/CASE | | | 44,232 | | | | 53,550 | 33,500 |
| Oversight | | | | | 20,000 | | | | 20,000 | ??? |
| Grand Total | | | | | 793,317 | | | | 743,838 | 528,727 |

EXHIBIT B

PRO BONO PROGRAM AT THE U.S. COURT OF VETERANS APPEALS

| | Fiscal years | | | | | Program total |
|---|---|---|---|---|---|---|
| | 1993 (9/1/92–9/30/93) | 1994 (10/1/93–9/30/94) | 1995 (10/1/94–9/30/95) | 1996 (10/1/95–9/30/96) | 1997[1] (10/1/96–9/30/97) | |
| Total appeals filed at CVA[2] | 1,265 | 1,148 | 1,204 | 1,561 | 798 | 5,976 |
| Appeals filed Pro Se[2] | 1,044 | 918 | 957 | 1,141 | 547 | 4,607 |
| Pro Bono Program application forms sent | 853 | 648 | 812 | 936 | 565 | 3,812 |
| Veterans who filed applications for program consideration | 580 | 450 | 609 | 493 | 295 | 2,427 |
| Veterans who received free attorney | 231 | 187 | 201 | 181 | 120 | 920 |
| Veterans who received some form of legal assistance (but no representation due to program ineligibility) | 343 | 262 | 327 | 287 | 186 | 1,405 |
| Percent of program eligible veterans who received representation (percent) | 100 | 100 | 100 | 100 | 100 | 100 |
| Program cases completed during fiscal year[3] | 52 | 147 | 199 | 156 | 88 | 642 |
| Program cases in which VA error found[3] | 45 | 112 | 158 | 125 | 64 | 504 |
| Percent of cases in which veteran prevailed in litigation through program efforts (percent) | 86.5 | 76.2 | 79.4 | 80.1 | 72.7 | 78.5 |

PRO BONO PROGRAM AT THE U.S. COURT OF VETERANS APPEALS—Continued

| | Fiscal years | | | | | Program total |
|---|---|---|---|---|---|---|
| | 1993 (9/1/92–9/30/93) | 1994 (10/1/93–9/30/94) | 1995 (10/1/94–9/30/95) | 1996 (10/1/95–9/30/96) | 1997 [1] (10/1/96–9/30/97) | |
| Recruited attorneys who have received training [4] ..... | 236 | 100 | 121 | 160 | 93 | 710 |

[1] Figures through 2nd quarter fiscal year 1997 only.
[2] Figures supplied by the Court (through 2/28/97 only).
[3] Figures do not include cases where representation was declined by the appellant, nor cases where the appellant died during pendency of appeal.
[4] Does not include 43 attorneys for whom training was waived.
Note: Figures subject to minor revision.

---

LETTER FROM FRANK Q. NEBEKER

U.S. COURT OF VETERANS APPEALS,
*Washington, DC, February 4, 1997.*

Hon. ARLEN SPECTER,
*Chairman, Committee on Veterans' Affairs,*
*U.S. Senate, Washington, DC.*

DEAR MR. CHAIRMAN: On June 10, 1996, I transmitted to the Chairmen and Ranking Minority Members of the Senate and House Committees on Veterans' Affairs a proposal to downsize the number of the Court's associate judges (Title I of the proposal) and to make the Court's retirement/survivor program comparable to the systems of other Article I Courts (Title II of the proposal). The proposal, a duplicate of which I again transmit with this letter, was submitted in response to Congressional inquiries regarding the Court's caseload relative to the requisite number of judges on the Court and regarding the comparability of the Court's judicial retirement/survivor program. The 104th Congress took no action on either Title I or Title II.

With respect to Title I, I indicated in my transmittal letter that case filings during the fiscal year 1990–92 period had averaged 1,942 per year but had dropped in the fiscal year 1993–95 period to an annual average of 1,224. At the time of my transmittal, case filings for the first 6 months of fiscal year 1996 were estimated to be 595 which suggested that fiscal year 1996 filings would be less than average annual filings for fiscal year 1993–95. During the last 6 months of fiscal year 1996, filings rose so that total fiscal year 1996 filings reached 1,620. For the first quarter of fiscal year 1997 the Court received 457 filings. I further indicated in my transmittal letter that cases pending at the end of each year of the fiscal year 1990–92 period had averaged 1,865 but had dropped to an average of 1,182 at the end of each year of the fiscal year 1993–95 period. At the time of my transmittal, it is estimated that 1,438 cases were pending. At the end of the first quarter of fiscal year 1997, 1,707 cases were pending. It should be further noted that the Board of Veterans Appeals, from which the Court's appeals derive, denied 6,400 appeals in fiscal year 1995 and 10,455 appeals in fiscal year 1996.

Several veterans service organizations either opposed enactment of Title I or, more cautiously, favored "a wait and see" approach to it. Enactment of Title I would result in estimated net annual savings of $660,900.

With respect to Title II, my June 10, 1996, transmittal letter stated:

> In the matter of the retirement/survivor program, I have received several letters from past chairmen of the Senate Veteran's Affairs Committee regarding the comparability of the Court's program with those established for other federal courts and have twice responded to the invitation to provide comments on a Congressional Research Service Report (Dennis W. Snook & Jennifer A. Neisner, "Congressional Research Service Report for Congress, Income Protection for Judges of Selected Federal Courts," dated December 29, 1993) (CRS report), that was prepared on that subject. The Court was asked to continue to review the matter and to advise the Committee of its findings. Enclosed also is a copy of the CRS report, annotated so that it may be used in conjunction with a memorandum dated November 14, 1994 (Memorandum), also enclosed, prepared by the Court's Committee on Legislative Matters, which addresses certain minor deficiencies in the

CRS report. The Court's review has revealed that each judicial retirement/survivor program has unique features and also that the retirement programs of other Article I federal courts have generally been enhanced over the last 7 years, whereas this Court's program has generally remained static since its creation in 1989. The Court believes that certain aspects of this resulting disparity should be addressed in corrective legislation to make the Court's program more comparable with other Article I federal court retirement programs. Accordingly, the Proposal also provides for systemic reforms in the Court's retirement/survivor system that are designed to put the Court on a more equal footing with the systems provided for other Article I courts.

I ask for your active support as Chairman in obtaining enactment of Title II to make the Court's retirement/survivor program more comparable with other Article I court programs. Because of the death of Judge Hart Mankin, on May 28, 1996, his widow, Ruth Mankin, is now a survivor under the Court's survivor annuity program. Over time, she will be at considerable disadvantage in comparison to widows of deceased Article I judges covered by the Joint Survivors' Annuity System. In this regard, I am hopeful that you will respond with expeditious action to enact Section 204 of Title II which is estimated to be without actuarially significant cost impact and without any appropriations impact. Enactment of all sections of Title II other than Section 204 is estimated to be without cost or appropriations impact.

I would also ask that you consider enacting legislation that would change the Court's name to the United States Court of Appeals for Veterans Claims. Many veterans and attorneys believe that the Court is an administrative tribunal of the Department of Veterans Affairs rather than an independent judicial entity. The present name of the Court appears to add to that belief especially in view of the fact that the name, "United States Court of Veterans Appeals", is often reduced to the acronym "CVA", which is not readily distinguishable from "BVA," the acronym for the Board of Veterans Appeals which is an administrative tribunal of the Department, or "DVA," the common acronym for the Department. It is important that the Court be perceived as both judicial and independent. Adoption of the name "United States Court of Appeals for Veterans Claims" should promote that perception. Such a change would also be consistent with action in recent years with respect to the names of other Article I Courts. The United States Court of Claims became the United States Court of Federal Claims in 1992. The United States Court of Military Appeals became the United States Court of Appeals for the Armed Forces in 1994.

Finally, I bring to your attention one additional matter. The Court was created in 1988 without any antecedent structure and with no judges in place (Veterans' Judicial Review Act, Public Law No. 100–687, Div. A., 102 Stat. 4105 (Nov. 18, 1988)). All 6 of the Court's original associate judges assumed office within a period of approximately 1 year of each other. Assuming that Title I of the proposal is not enacted, the 15-year terms of the Court's remaining 5 original associate judges will expire within a period of approximately 1 year of each other. As a consequence, and again assuming no downsizing, I recommend that consideration be given to attempting to eliminate the undesirable dislocating effect of such a rapid turnover by permitting early retirement of remaining original associate judges who meet certain age and service requirements which, in turn, could space the sequencing of retirements so as to assure continuity of experience in the Court's judicial component. Implementation may be achievable, pursuant to 38 U.S.C. § 7298(2)(A), within existing appropriations. It should be noted that several Article I Courts have early retirement programs applicable to all their judges.

Thank you for your consideration. I am sending the same letter and enclosures to Chairman Stump, and Ranking Minority Members Rockefeller and Evans.

Sincerely,

FRANK Q. NEBEKER,
*Chief Judge.*

VA DECISION PROCESS

Senator BOND. Thank you, Judge.

Senator Mikulski will be rejoining us shortly.

The committee has been concerned for a long time with the whole process of adjudicating claims at the Department of Veterans Affairs, both in terms of the time it takes and the quality of deci-

sions. The VA has undertaken some initiatives to make improvements, such as business process reengineering.

First, do you see any evidence that the quality of decisionmaking is improving at the VA?

Judge NEBEKER. Not in the cases that come before the court. The error rate is still approximately 50 percent. That is, 50 percent of the cases that come to issue and are decided by the judges are remanded because of prejudicial error in the decision somewhere.

Senator BOND. Well, 2 years ago you said the rate was in excess of 60 percent, so while 50 percent is not great, I guess there is progress, going from 60 percent to 50 percent.

What needs to be done?

Judge NEBEKER. Well, I wish I knew. Obviously, more resources at the Board level, but they have got the resources. They have been augmented tremendously in an austere budget period. They have cut back to one member panel, that is, single member decisions, and they are putting out more decisions. As a matter of fact, the denial rate before the Board has gone from 6,000 last year to 10,000 this year. We can expect that reverberation to affect the case load of the court in the next year, 6 months to 1 year.

Senator BOND. In October 1994 at the court's third judicial conference, you called upon Secretary Brown to make unequivocal use of the powers invested in his office to ensure that precedent opinions are followed and the judgments in specific cases are met with full and prompt compliance.

Has there been any action on that recommendation?

Judge NEBEKER. There have been a number of committees studying it.

Senator BOND. Studying it?

Judge NEBEKER. Yes, sir.

Senator BOND. Thanks.

In addition, a commission authorized by Congress, the so-called Melidosian Commission, recently finalized its report on improving claims processing. It said the claims adjudication system was created by the VA to process the benefits legislated by Congress, but that layer upon layer of changes have been added to the benefits and, therefore, to the processing system and that there has never been a wholesale revision to bring all changes into a harmonious whole. Therefore, the nature of the product's benefits have helped lead to a system which is perceived as inefficient, untimely, and inaccurate.

Do you believe Congress needs to legislate an overhaul to the claims processing system as contemplated, or could it be achieved by regulation? What is your view on the needed reforms?

Judge NEBEKER. Mr. Chairman, I am not in a position to offer an opinion respecting the operations of an executive branch Department, particularly one of the size of the Department of Veterans Affairs. I note that that Melidosian report pretty well echoed what I suggested 2 years ago at the judicial conference, which you just mentioned.

But insofar as a court entering into the political arena of what ought to be done to make a particular executive branch program work, I am totally unqualified to do that.

PRO BONO REPRESENTATION PROGRAM

Senator BOND. With respect to the proposed reprogramming of $950,000 to initiate the pro bono representation program, your testimony says:

> The court's judges continue to believe that this funding method links the court to one class of litigants and exposes it to charges of lacking impartiality, thereby degrading the public's trust and confidence in the judicial review of veterans' claims.

The court has altered its position on the pro bono representation program last year after supporting its inclusion in the budget for several years. Would you explain what the status is and where this program stands and what the trust and confidence level may be in the judicial system?

Judge NEBEKER. Well, the program is a successful program. It not only—well, its major purpose is to help the pro se veterans. To the extent that it thereby helps the court, that is a windfall and a desirable windfall. We are a conduit for their funding and as long as we can be assured and the public can be assured that the court is not funding the program out of its own operating budget, then I think there is no real concern.

But if the idea is that the court is funding a particular side of the litigation that appears before it, it is not unlike the court funding a public defender service or a prosecutor's office to the exclusion of the other side. It is that problem that we think needs to be solved, because there is an appearance that the court is in a position of being compromised where it should not be.

CLOSING

Senator BOND. Thank you very much, Judge.

Let me see if Senator Mikulski wants to ask any questions. In the interest of time, I will submit the remainder of the questions I have for the record. I think you have covered very well the things we have discussed and I appreciate your responsiveness to the questions, as well as to the concerns that we have expressed.

Senator Mikulski has said that she will submit her questions for the record. I appreciate very much your testimony.

Judge NEBEKER. Thank you very much, Mr. Chairman. I do try to be responsive to questions when they are asked.

Senator BOND. It is a very pleasant trait. I certainly enjoy it.

## AMERICAN BATTLE MONUMENTS COMMISSION

**STATEMENT OF GEN. JOHN P. HERRLING, U.S. ARMY (RETIRED), SECRETARY**

Senator BOND. I welcome our final panel: Gen. John P. Herrling, Secretary of the American Battle Monuments Commission, will be testifying on the administration's budget request for fiscal year 1998 for the ABMC of $23.9 million, an increase of $1.6 million over fiscal year 1997's appropriation of $22.3 million. Mr. Steve Dola, the Deputy Assistant Secretary for Management and Budget for the Department of the Army, Cemeterial Expenses, will be testifying on the administration's budget request for fiscal year 1998 of $11.8 million, a $200,000 increase over to $11.6 million appropriated for fiscal year 1997. This funding would cover the maintenance, operation, and improvement of Arlington National Cemetery and the Soldiers and Airmen's Home National Cemetery. Finally, Mr. Gil Coronado, Director of the Selective Service System, will testify on the administration's budget request for fiscal year 1998 of $23.9 million for the Selective Service, an increase of $1 million over the $22 million appropriated for fiscal year 1997 for the Selective Service.

With that, General Herrling.

General HERRLING. Thank you, Mr. Chairman. On behalf of the Commissioners of the American Battle Monuments Commission, I am pleased to appear before you today. Let me begin by thanking you and the members of this committee for the support that you have provided our Commission over the years.

The special nature of the American Battle Monuments Commission places it in a unique and highly responsible position with the American people. The manner in which we care for our honored war dead is and should remain a reflection of the high regard in which we as a Nation memorialize their service and sacrifices.

As you know, the American Battle Monuments Commission was established by Congress in 1923. It is a small, one-of-a-kind organization responsible for commemorating the services of the Armed Forces where they have served since April 6, 1917. We do this through the construction and maintenance of memorial shrines, monuments, and military burial grounds on foreign soil.

The American Battle Monuments Commission operates and maintains 24 permanent memorial cemeteries and 28 monuments, memorials, and markers in 15 countries around the world. We have 8 World War I and 14 World War II cemeteries located in Europe, the Mediterranean, North Africa, and the Philippines. All of these cemeteries are closed to burials. In addition, we are responsible for the American cemeteries in Mexico City and Panama.

Interred in these cemeteries are approximately 31,000 World War I dead, 93,000 from World War II, and 750 from the Mexican war, for a total of 125,000. Also we have approximately 5,000

American veterans and others buried in the cemetery in Panama. In addition, we have honored another 94,000 service members on the Walls of the Missing, dedicated to those missing in action or those lost or buried at sea.

The care of these cemeteries and memorials requires a significant annual program of maintenance and repair of facilities, equipment, and grounds. The care and maintenance of these facilities is labor intensive. Therefore, personnel costs amount to 72 percent of our budget for fiscal year 1998. The remaining 28 percent is required to fund our operations which include engineering maintenance, utilities, horticultural supplies, equipment, and administrative costs.

Also, because of the permanent nature of our operations, we do not have the option of closing or consolidating cemeteries or memorials. In light of this, we have increased our efforts to achieve greater efficiency and effectiveness through automation in the operational and financial management areas.

In addition to our overseas mission, we have been mandated by the Congress to construct two memorials in Washington, DC.

On July 27, 1995, President Clinton and President Kim Young Sam of the Republic of Korea dedicated the Korean War Veterans Memorial. Last month, on February 6, we opened the Korean War Veterans Memorial information kiosk. This kiosk houses the Korean war veterans honor role, which allows friends and relatives to query a data base containing the names and information about those who died during the Korean war. With the opening of the kiosk, the Korean War Veterans Memorial is now complete.

In May 1993, Congress authorized the Commission to build a national World War II memorial. The Rainbow Pool site on The Mall was dedicated on November 11, 1995, by President Clinton. Since that time a national design competition for the memorial was held, with over 400 entries submitted. Six finalists were selected for the final stage of the competition. On January 17 of this year, President Clinton announced the winner of the design competition.

As directed by the Congress, the project will be funded through private contributions. The American Battle Monuments Commission is currently working with a presidentially appointed World War II Memorial advisory board to raise the funds for the memorial.

Our greatest challenge, Mr. Chairman, for fiscal year 1998 will be in dealing with aging facilities and equipment. Our memorial cemeteries range in age from approximately 50 to 80 years, with the Mexico City cemetery being over 140 years old. The permanent structures and plantings which make our facilities among the most beautiful memorials in the world are aging and require prioritized funding to maintain them at current standards. Therefore, we are requesting $250,000 more in fiscal year 1998 for maintenance and minor construction.

In addition, much of our equipment is aging and rapidly reaching the end of its useful life. In order to resolve this problem, we are requesting an additional $200,000 to fund our equipment repair and replacement program. We also have small increases of $200,000 for supplies, $300,000 to integrate our financial system in compliance with OMB, GAO, and recent congressional directions,

and $214,000 for rental of office space previously provided at no cost.

In summary, since 1923 the American Battle Monuments Commission's cemeteries and memorials have been held to a high standard in order to reflect America's continuing commitment to its honored war dead, their families, and the U.S. national interest.

The Commission intends to continue to fulfill this sacred trust. Our appropriation request for fiscal year 1998 is $23,897,000.

PREPARED STATEMENT

Mr. Chairman, this concludes my statement. I will be pleased to respond to your questions.

[The statement follows:]

PREPARED STATEMENT OF GEN. JOHN P. HERRLING

Mr. Chairman and Members of the Committee: Thank you for the opportunity to testify on our fiscal year 1998 Appropriation Request. The special nature of the American Battle Monuments Commission places it in a unique and highly responsible position with the American people. The manner in which we care for our Honored War Dead is, and should remain, a reflection of the high regard in which we, as a nation, honor their service and sacrifices.

As you know, the American Battle Monuments Commission is a small, one-of-a-kind organization, that is responsible for commemorating the services of American Armed Forces where they have served since April 6, 1917 (the date of U.S. entry into World War I) through the erection of suitable memorial shrines; for designing, constructing, operating, and maintaining permanent American military burial grounds in foreign countries; for controlling the design and construction of U.S. military monuments and markers in foreign countries by other U.S. citizens and organizations, both public and private; and for encouraging the maintenance of such monuments and markers by their sponsors. In performing these functions, the American Battle Monuments Commission administers, operates, and maintains twenty-four permanent memorial cemeteries and twenty-eight monuments, memorials, and markers in fifteen countries around the world.

We have eight World War I and 14 World War II cemeteries located in Europe, the Mediterranean, North Africa, and the Philippines. All of these cemeteries are closed to burials except for the remains of the War Dead who may occasionally be discovered in World War I or World War II Battlefield areas. In addition, we are responsible for the American cemeteries in Mexico, established after the Mexican War, and Panama.

Presently 124,914 U.S. War Dead are interred in these cemeteries—30,921 of World War I, 93,243 of World War II and 750 of the Mexican War. Additionally, 5,857 American veterans and others are interred in the Mexico City and Corozal (Panama) American Cemeteries. Commemorated individually by name on stone tablets at the World War I and II cemeteries and three memorials on U.S. soil are the 94,120 U.S. service men and women who were Missing in Action, or lost or buried at sea in their general regions during the World Wars and the Korean and Vietnam Wars.

We continue to provide services and information to the public, friends, and relatives of those interred in, or memorialized, at ABMC cemeteries and memorials. This includes information about grave and memorialization sites as well as location, suggested routes, and modes of travel to the cemeteries or memorials. Immediate family members are provided letters authorizing fee-free passports for overseas travel to specifically visit a loved one's grave or memorial site. Photographs of headstones and sections of the Tablets of the Missing on which the service person's name is engraved are also available. These photographs are mounted on large color lithographs of the cemeteries or memorials. In addition we assist those who wish to purchase floral decorations for placement at grave or memorial sites in our cemeteries. A photograph of the in-place floral arrangement is provided to the donor.

The care of these shrines to our War Dead requires a formidable annual program of maintenance and repair of facilities, equipment, and grounds. This care includes upkeep of 131,000 graves and headstones; 73 memorial structures; 41 quarters, utilities, and maintenance facilities; 67 miles of roads and paths; 911 acres of flowering plants, fine lawns and meadows; nearly 3,000,000 square feet of shrubs and hedges

and over 11,000 ornamental trees. Care and maintenance of these resources is exceptionally labor intensive, therefore, personnel costs account for 72 percent of our budget for fiscal year 1998. The remaining 28 percent is required to fund our operations, including unprogramed requirements resulting from natural disasters or foreign currency fluctuations. We do not have the option of closing or consolidating cemeteries. In light of this, we have increased our efforts to achieve greater efficiency and effectiveness, through automation and contracting, in the operational and financial management areas, where we do have control.

This Commission fully recognizes and supports the efforts of the President and the Congress to improve efficiency, focus on results, and streamline the government overall. During fiscal year 1996, we completed the upgrade to our automation system and offset telephone, fax, and mail costs while increasing productivity. We have contracted with the Department of Treasury's Financial Management Services Center to study our accounting system, provide alternatives and recommendations, and design a new system, if findings warrant. We anticipate these recommendations will be implemented during fiscal year 1998. In addition, we have begun development of our Strategic and Annual Performance Plans in accordance with the Government Performance and Results Act. We believe, when finalized, our plans will provide a comprehensive roadmap for accomplishing our mission.

On July 27, 1995, President Clinton and President Kim Young Sam dedicated the Korean War Veterans Memorial. On February 6, 1997, we opened the Korean War Memorial Kiosk. This Kiosk houses the Korean War Veterans Memorial Honor Roll. This Honor Roll allows friends and relatives to query a data base containing the names and information about those who died during the Korean War. With the opening of the Kiosk we are pleased to be able to report to you that the Korean War Veterans Memorial is now complete.

Our focus for fiscal year 1998 and for the next several years will be the World War II Memorial. As you know, on May 25, 1993, President Clinton signed Public Law 103–32 directing the ABMC to build a World War II Memorial. The World War II Memorial Site at the Rainbow Pool was dedicated by President Clinton on November 11, 1995. Since that time, a national design competition was held with over 400 preliminary designs submitted for evaluation. Six finalists were selected and announced on August 21, 1996. Final designs were submitted to a design jury on October 25. Criteria included concept, past performance, specialized experience and technical competence, professional qualifications and the capacity to accomplish the work in the required time. The jury interviewed the finalists and made its recommendation to the Commission on October 31. The World War II Advisory Board met and provided its advice to the ABMC on November 18. ABMC Commissioners considered the advice and recommendations and selected the winning design team/concept on November 20. On January 17, 1997, at a White House Ceremony, President Clinton unveiled the winning design by Friedrich St. Florian, former Dean of the Rhode Island School of Design, and a current professor at the school. Teaming up with Professor St. Florian are George E. Hartman, Hartman-Cox Architects, and Oehme van Sweden & Associates, Inc., both of Washington D.C. Leo Daly will be the architect—engineer of record.

As directed by the Congress, the $100 Million memorial will be funded through private donations after expending the $4.7 Million that Congress authorized from the surcharge proceeds of World War II Commemorative Coin sales and the $5 Million transferred from Department of Defense. The American Battle Monuments Commission is working closely with the World War II Memorial Advisory Board to raise the funds to meet the planned dedication on Veterans' Day in the year 2000.

While our attention has been focused on management improvements and the design and construction of the World War II Memorial, we have not ignored our primary mission of operating and maintaining twenty-four memorial cemeteries and twenty-eight monuments. The Congress has been instrumental in our success in maintaining its high standard of excellence by providing the funds required to accomplish our objectives, and for that we thank you.

Fiscal year 1998 will present new challenges. For the first time in nine years we have repriced our foreign currency budget rates. This repricing, with OMB support, conforms with the Department of Defense's budget rates for foreign currency. With this repricing, we estimate that we will require $2,097,000 to satisfy foreign currency fluctuation requirements. This amount has been included in our budget request. In addition the fiscal year 1998 request provides for cost of living increases for our U.S. and foreign national personnel, rental expenses for space previously provided at no cost, funding to integrate ABMC financial systems in accordance with OMB, GAO, and recent Congressional directions, and small increases for maintenance and equipment.

Perhaps our greatest challenge will be in dealing with aging facilities and equipment. Our cemetery memorials range in age from 50 to 80 years old with Mexico City being over 100 years old. The permanent structures and plantings which make our facilities among the most beautiful memorials in the world are aging and require increased funding to maintain them at the current standards. Our maintenance and engineering budget is stretched to the limit. Accordingly, we are prioritizing this spending carefully. In addition, much of our equipment is aging and rapidly reaching the end of its useful life. We have requested additional funding for equipment replacement this fiscal year and will be implementing phased replacement in order to take advantage of new labor saving technology.

Since 1923, the American Battle Monuments Commission's memorials and cemeteries have been held to a high standard in order to reflect America's continuing commitment to its Honored War Dead, their families, and the U.S. national image. The Commission intends to continue to fulfill this sacred trust.

The American Battle Monuments Commission appropriation request for fiscal year 1998 is $23,897,000.

This concludes my prepared statement. I will be pleased to respond to your questions.

## ADDITIONAL COMMITTEE QUESTIONS

Senator BOND. Thank you very much, General.

[The following questions were not asked at the hearing, but were submitted to the Commission for response subsequent to the hearing:]

### QUESTION SUBMITTED BY SENATOR STEVENS

#### ABMC SPECIAL EVENTS AND SERVICES TO THE PUBLIC

*Question.* Provide to each Committee Chairman a schedule of planned Memorial Day activities and other special events as well as information on public services provided by American Battle Monuments Commission (ABMC).

Answer. As of 26 March 1976, ABMC provided the Chairman of each Senate and House Committee a listing of ABMC Special Events planned for 1997 and a Fact Sheet on ABMC's mission and services which are provided to the public. These two documents are as follows:

#### 1997 MEMORIAL DAY AND OTHER EVENTS AT ABMC CEMETERIES AND MEMORIALS

The following is a list of Memorial Day, Veterans Day, D-Day Ceremonies, and other activities that are planned for 1997.

*Memorial Day.*—Memorial Day programs are held at each ABMC Cemetery. Each grave site is decorated with the flag of the United States and that of the host country. Programs, usually including participation by the U.S. Ambassador to the host country, includes reading of the President's Memorial Day Proclamation, speakers, the presentation of the National Colors, wreath laying ceremonies, and military bands and units. The 1997 Memorial Day schedule for our cemeteries in Europe, Tunisia, Mexico City, Panama and Philippines, is as follows:

| Cemetery | Date | Time |
|---|---|---|
| AISNE-MARNE (France) [1] | SUNDAY 25 MAY | 10:15 AM |
| ARDENNES (Belgium) [2] | SATURDAY 24 MAY | 10:00 AM |
| BRITTANY (France) [2] | SUNDAY 25 MAY | 4:30 PM |
| BROOKWOOD (England) [1] | SUNDAY 18 MAY | 3:00 PM |
| CAMBRIDGE (England) [2] | MONDAY 26 MAY | 11:30 AM |
| COROZAL (Panama) | MONDAY 26 MAY | 9:00 AM |
| EPINAL (France) [2] | SUNDAY 25 MAY | 3:00 PM |
| FLANDERS FIELD (Belgium) [1] | SUNDAY 25 MAY | 3:00 PM |
| FLORENCE (Italy) [2] | MONDAY 26 MAY | 11:00 AM |
| HENRI-CHAPELLE (Belgium) [2] | SATURDAY 24 MAY | 4:00 PM |
| LORRAINE (France) [2] | SUNDAY 25 MAY | 11:00 AM |
| LUXEMBOURG (Luxembourg) [2] | To Be Announced | ..... |
| MANILA (Philippines) [2] | MONDAY 26 MAY | 4:00 PM |
| MEXICO CITY (Mexico) | FRIDAY 30 MAY | 12:00 PM |

| Cemetery | Date | Time |
|---|---|---|
| MEUSE-ARGONNE (France) [1] | SUNDAY 25 MAY | 3:00 PM |
| NETHERLANDS (The Netherlands) [2] | SUNDAY 25 MAY | 3:00 PM |
| NORMANDY (France) [2] | SUNDAY 25 MAY | 10:30 AM |
| NORTH AFRICA (Tunisia) [2] | SATURDAY 24 MAY | 10:00 AM |
| OISE-AISNE (France) [1] | SUNDAY 25 MAY | 4:00 PM |
| RHONE (France) [2] | SUNDAY 25 MAY | 10:00 AM |
| ST. MIHIEL (France) [1] | SUNDAY 25 MAY | 4:00 PM |
| SICILY-ROME (Italy) [2] | MONDAY 26 MAY | 11:00 AM |
| SOMME (France) [1] | SUNDAY 25 MAY | 3:00 PM |
| SURESNES (France) [1] | SUNDAY 25 MAY | 2:30 PM |

[1] World War I American Cemeteries and Memorials.
[2] World War II American Cemeteries and Memorials.

*D-Day Landing Ceremonies—6 June 1997.*—A commemorative program is held each year at a site along the Landing Beaches. The program site is rotated between the British, French, and American Sectors. The 1997 program will be held in the American Sector of operations on 6 June at the following locations:

| | |
|---|---|
| Bayeux | 9:30 AM Liberation Monument—Wreath Laying. |
| Omaha Beach | 10:15 AM American cemetery—Religious Service. |
| | 11:00 AM D-Day Monument—Wreath Laying. |
| | 11:15 AM National Guard Monument—Wreath Laying. |
| Point Du Hoc | 11:30 AM Wreath Laying. |
| Saint-Mere-Eglise | 12:15 PM Wreath Laying. |
| | 12:45 PM Official Banquet. |
| Utah Beach | 3:00 PM Leclerc Monument—Wreath Laying. |
| | 3:30 PM Monument of 4th Division Wreath Laying. National Ceremony-American Federal Monument: Raising 8 National Colors; Official Speeches; Wreath Laying Ceremony; Military Parade. |

*Veterans Day.*—Annual ceremonies are held at some of the cemeteries on Veterans Day, which coincides with the French holiday commemorating the end of World War I. Local community programs frequently include commemorative events at some of our cemeteries. The location and magnitude of the programs vary in location and size. We will provide dates and times for Veterans Day celebrations at a later date.

*Other Ceremonial Occasions.*—Members of Congress, officials of the Executive Branch, high ranking diplomatic and senior representatives of the respective host nations and allied powers, personnel from NATO/SHAPE, as well as, veterans' remembrance, educational and even local patriotic groups frequently visit our cemeteries and memorials. These visits include small wreath laying ceremonies and community sponsored receptions to honor those Americans who fought in and liberated a particular town or region.

*Special Events.*—Our Cemetery Superintendents serve as ambassadors of goodwill in the country where they are stationed. They frequently represent the United States at ceremonies and other community based programs. These include ceremonies commemorating the liberation of towns and villages by U.S. troops, events that honor the survivors of Nazi concentration camps and visits by American veterans' remembrance groups.

## AMERICAN BATTLE MONUMENTS COMMISSION

### *Mission*

The American Battle Monuments Commission (ABMC) is a small independent agency of the Executive Branch established by Congress on March 4, 1923 (36 U.S.C. 121–128c).

The principal mission of the agency is to commemorate the sacrifices and achievements of the United States Armed Forces, where they have served, since April 6, 1917, the date of U.S. entry into World War I. This is accomplished by:

Designing, constructing, administrating, and maintaining cemetery and memorial structures outside the United States. ABMC currently has responsibilities for 24

permanent United States memorial cemeteries, and 27 memorial monuments and markers.

Controlling the design and construction of U.S. Military memorials, monuments, and markers on foreign soil which are sponsored by U.S. citizens or U.S. public or private organizations, and encouraging these organizations to adequately maintain them.

Establishing memorials in the United States, when legislated by the Congress, and outside the United States, where U.S. forces have served, as the Commission determines.

—Congress directed ABMC to establish the Korean War Veterans Memorial on the Mall in Washington, DC. This Memorial was completed and dedicated in July 1995 and is now administered by the National Park Service.

—Public Law 103–94, signed by President Clinton on May 25, 1993, authorizes ABMC to design, erect and conduct fund raising for the national World War II Memorial that is to be sited on the Mall in Washington, DC. This national monument will memorialize the generation of Americans whose spirit, sacrifice, and unity reflect the values that have made our nation strong. This Memorial will also pay tribute to the many Americans who served in the Armed Forces and to all those who joined the war effort on the home front. The Commission's goal is to dedicate the Memorial on Veterans Day 2000. Former Senator Robert Dole, a World War II veteran, is now serving as Co-Chairman of the World War II Memorial fund raising effort.

*Services Available to the Public*

General information concerning name and location of cemetery and memorial sites.

Specific information on grave and memorialization sites of War Dead.

General information about travel to the military shrines administered by the Commission, including best routes, modes of travel, available accommodations, and information about historical events which took place in the battlefield areas in the region of the cemetery memorials.

Authorization to immediate family members for issuance of fee free U.S. passports when visiting burial or memorialization sites of loved ones.

Escort of family members to appropriate grave and memorialization sites when visiting cemetery memorials.

Photographs of grave and memorialization sites, along with large color lithographs of the cemetery memorials.

Assistance in placing floral decorations at grave and memorialization sites using funds provided by the donor.

Maintenance of the Honor Roll database of the Korean War Veterans Memorial on the National Mall in Washington, DC. The Honor Roll commemorates those members of the United States military who died world-wide during the Korean War. Honor Roll Certificates may be obtained at the kiosk located at the Memorial or from ABMC's Washington office.

---

QUESTION SUBMITTED BY SENATOR MIKULSKI

*Question*. Provide a plan to work through the current backlog of engineering projects and identify a schedule which might allow American Battle Monuments Commission to "buy out" of this backlog dilemma.

Answer. A copy of the current Master Priority Listing for all identified engineering projects follows below.

There are 550 projects with a total estimated cost of slightly over $10 million. With considerable attention to detail, this master list has been carefully reviewed, revised, updated, and prioritized over the course of the past nine months. Accordingly, our fiscal year 1997, fiscal year 1998, and outyear engineering plans and programs are now based on this newly developed master priority list.

Presently, ABMC hopes to apply $2M to engineering projects in fiscal year 1997. At this time, our President's Budget Request has $2.2M programmed for engineer projects in fiscal year 1998. If we do not experience unanticipated foreign currency fluctuations, any significant natural disasters, or unexpected utility or plant failures, we project our backlog will be reduced to $6M by the end of fiscal year 1998. Additionally, we estimate that $700,000 in new projects must be added to the master list each year. Consequently, if we are able to continue to apply $2M annually toward engineer projects every year, it could still take an additional five years (fiscal year 1999 through fiscal year 2003) to eliminate the backlog. In order to support the current high standards of maintenance and repair of our facilities, plus improve

our position with respect to energy conservation, productivity, and efficiency, the Commission could effectively apply up to an additional $1M per year above the President's Budget, for engineer project backlog reductions. This would allow ABMC to make a major reduction prior to fiscal year 2001.

ABMC ENGINEERING BACKLOG AT START FISCAL YEAR 1997

| Cemetery | Project | Object class | Estimated cost |
|---|---|---|---|
| Meuse Argonne | Anchor Loose Stones at Church Ruins at Montfaucon | 25 | $2,000 |
| North Africa | Repair of Interior Court Cornice | 32 | 30,000 |
| Aisne Marne | Install Automatic Chlorinator for Potable Water | 25 | 1,000 |
| Rhone | Install electrical/heating System, Visitor Center | 32 | 3,000 |
| Aisne Marne | Drill New Deep Well | 25 | 250,000 |
| Manila | Repair Hemicycle Roof | 32 | 100,000 |
| Rhone | Replacement of Fuel Tank Visitors/Office Building | 25 | 5,800 |
| Aisne Marne | Install Water Softener | 25 | 1,500 |
| Sicily-Rome | Drill New Well 30 mt. Install Pumping System | 32 | 6,800 |
| Meuse Argonne | Replace 3 ea Fuel Tanks, and 1 ea gas tank | 25 | 50,000 |
| Sicily-Rome | Raise and expand irrigation parts store room | 25 | 2,018 |
| Normandy | Replace 1 ea gas tank | 25 | 11,000 |
| Manila | Repair Water Purification System (Potable) | 32 | 30,000 |
| Sicily-Rome | Improve Drainage to Soutwest corner of center mall | 32 | 3,000 |
| Netherlands | Replace One Gasoline Tank | 25 | 8,000 |
| North Africa | Replace curbstones along Burial area | 25 | 3,000 |
| Ardennes | Install Heavy Security Door on Side of Garage | 25 | 750 |
| Florence | Gradual replacement of boundary hedges (North ent) | 25 | 4,000 |
| Oise-Aisne | Construct Weir on Stream | 25 | 1,000 |
| Mexico City | Replace Water Tanks | 25 | 1,000 |
| Florence | Replace fire thorn hedge both entrance drives | 25 | 4,000 |
| Flanders Field | Renovate Oudenarde Monument | 25 | 8,000 |
| North Africa | Replacement of Thuya Hedges | 25 | 5,750 |
| Ardennes | Sandblast, Repair and Repaint Compost Shed | 25 | 5,000 |
| Florence | Replace old Tar Paper, Reservoir Roof | 25 | 3,000 |
| Cambridge | Repair Stone Steps at Flag Pole Base | 25 | 15,000 |
| Corozal | Improve Drainage System | 32 | 47,000 |
| Florence | Install water pump to increase pressure | 25 | 3,000 |
| Oise-Aisne | Replace Gutters on Garage/Storage Bldg in Service | 25 | 8,000 |
| Florence | Replace 50 old Model Sprinklers, Burial Area | 25 | 4,500 |
| Epinal | Install Lightning Protection for Sprinkler System | 25 | 1,000 |
| Sicily-Rome | Replace 50 old Model Sprinklers, Burial Area | 25 | 4,500 |
| Epinal | Improve Security Measures of Service Area | 25 | 2,000 |
| Mexico City | Replace Four Doors | 25 | 2,000 |
| North Africa | Maintenance of Flagpole, Travertine Drainage Grill | 25 | 1,000 |
| Cambridge | Repoint Steps around Flagpole | 25 | 1,000 |
| Florence | Install water filter in both quarters | 25 | 3,800 |
| Aisne Marne | Repaint Exterior Dormer Window Frame, Visitors Bldg | 25 | 500 |
| Manila | Repair Asst Superintendent's Roof | 25 | 5,700 |
| Henri Chapelle | Repair Leak Around Dormer in Supt's Qtrs | 25 | 500 |
| Florence | Replace walkpaths cotto tiles, of both quarters | 25 | 3,500 |
| Lorraine | Refurbish Biological Filter | 25 | 25,000 |
| Cambridge | Install handrail on steps plots E–F | 25 | 2,000 |
| Sicily-Rome | Resurfacing of Spillway Canal, Tinozzi Ditch | 25 | 2,000 |
| Somme | Repair Hinges on Chapel Doors | 25 | 5,000 |
| Manila | Caulk Joints of Western Hemicycle | 32 | 15,000 |
| Brookwood | Replace Gutters on Superintendent's Quarters | 25 | 1,600 |
| North Africa | Replace Deep Well Pump | 25 | 3,000 |
| Meuse Argonne | Relocate Compost Shed | 25 | 30,000 |
| Ardennes | Replace Ladder in Reservoir | 25 | 1,000 |
| Sicily-Rome | Maintain Facings, roofs of all svc area buildings | 25 | 2,100 |

ABMC ENGINEERING BACKLOG AT START FISCAL YEAR 1997—Continued

| Cemetery | Project | Object class | Estimated cost |
|---|---|---|---|
| Meuse Argonne | Build External Water Reservoir (Lake) | 32 | 50,000 |
| Garches | Construct Insulating Skylight | 25 | 534 |
| Lorraine | Replace Sewage Pump Asst Supt Qtrs | 25 | 1,000 |
| Lorraine | Replace Circulation Pump, New Service Bldg | 25 | 444 |
| Netherlands | Repair Roof of Transformer Bldg | 25 | 1,633 |
| Normandy | Replace Water Heater, Supt's Qtrs | 25 | 899 |
| Ardennes | Replace Drainage Pipe Asst Supt Qtrs | 25 | 285 |
| Meuse Argonne | Replace Sprinkler System | 32 | 350,000 |
| Netherlands | Construct Oil-Water Separator at Wash Point | 25 | 20,000 |
| North Africa | Replacement of Border Stone Terrace | 32 | 25,000 |
| Normandy | Modify Low Voltage Electrical Panel in Pump House | 25 | 6,000 |
| Luxembourg | Repair Asst Supt's Driveway | 25 | 10,000 |
| Florence | Renovation of Memorial Toilets W/Handicapped Fct | 32 | 25,000 |
| Brittany | Paint Flag Poles | 25 | 3,000 |
| Manila | Replace 3 Transformers and Upgrade Sub-station | 32 | 47,000 |
| Flanders Field | Repoint Base of Chapel Memorial | 25 | 5,000 |
| Rhone | Enclose section of Compost Shed | 32 | 8,000 |
| Brookwood | Repair Chapel Decorative Grills | 25 | 15,000 |
| Meuse Argonne | Renovate Water Reservoir | 25 | 40,000 |
| Rhone | Replace heating system in Government quarters | 32 | 8,000 |
| Aisne Marne | Install all Utilities at Chateau Thierry Monument | 32 | 30,000 |
| Manila | Upgrade Electrical Panel (Pumphouse) | 32 | 30,300 |
| Cambridge | Repair Cracks in Supt's Qtrs | 25 | 5,000 |
| Sicily-Rome | Renovation of Visitors Toilets to include handicap | 32 | 24,000 |
| Normandy | Construct Path Way to Debris Disposal Area | 25 | 2,100 |
| Brookwood | Improve Drainage Around Chapel | 25 | 5,000 |
| North Africa | Install Kitchen Stovetop Exhaust Vents, Both Qtrs | 25 | 1,000 |
| Brittany | Renovate Public Toilets | 25 | 10,000 |
| Manila | Install Automatic Sprinkler System (Phase I) | 32 | 75,000 |
| Somme | Repair Inscriptions at Bellicourt Monument | 25 | 5,000 |
| Florence | Closing of Compost Pit For Needed Storage Area | 32 | 6,000 |
| Flanders Field | Replace Flagpole Terrace | 25 | 7,000 |
| Florence | Replace 50 old Model Sprinklers, Burial Area | 25 | 5,000 |
| Luxembourg | Construct Ramp Between Memorial & Plots | 25 | 1,750 |
| Corozal | Secure Fence Line | 25 | 3,600 |
| Aisne Marne | Neutralize/Repair Exposed Rebar at Chateau Thierry | 25 | 7,500 |
| Sicily-Rome | Closing of Compost Pit for Needed Storage Area | 32 | 6,000 |
| Flanders Field | Check Lightning Protection System on Chapel | 25 | 1,500 |
| Henri Chapelle | Renovate & Clean Colonnades Ceiling | 25 | 10,000 |
| Sicily-Rome | Replace 50 old Model Sprinklers, Burial Area | 25 | 5,000 |
| Lorraine | Reconstruct Memorial Stairway | 25 | 120,000 |
| Corozal | Replace Roof, Superintendent's Qtrs | 25 | 5,000 |
| Aisne Marne | Install Oil-Water Separator at Svc Area Washrack | 25 | 2,000 |
| North Africa | Renovation of Visitors Toilets to include handicap | 32 | 10,000 |
| Cambridge | Treatment of Wood and Stone Work in Chapel | 25 | 2,500 |
| Henri Chapelle | Clean and Repair Mosaic Stars in Colonnade Ceiling | 25 | 60,000 |
| Rhone | Handicapped toilet building (unisex facility) | 32 | 35,000 |
| Brittany | Improve lightning arrestors at Brest Monument | 25 | 5,000 |
| Mexico City | Replace Roof on Service Building | 25 | 1,500 |
| Somme | Improve Ventilation in Garage Work Shop | 25 | 500 |
| Florence | Renovate Toilets, Visitors/Office Building | 32 | 8,000 |
| Oise-Aisne | Paint Exterior of Garage/Storage Bldg in Svc Area | 25 | 3,000 |
| Flanders Field | Install Electric Heater in Chapel | 25 | 1,500 |
| Rhone | New Road Signs Installation | 32 | 19,000 |
| Oise-Aisne | Paint Exterior of Visitors/Quarters Building | 25 | 5,000 |
| Corozal | Install Deep Well & Reservoir | 32 | 60,000 |

ABMC ENGINEERING BACKLOG AT START FISCAL YEAR 1997—Continued

| Cemetery | Project | Object class | Estimated cost |
|---|---|---|---|
| Aisne Marne | Rebuild entrance area and Walkways to Bldgs | 25 | 50,000 |
| Sicily-Rome | Refurbish Ligustrum hedges, Bare Spots, w/New Plan | 25 | 8,900 |
| Cambridge | Replace Damaged Stones on Court of Honor | 25 | 2,000 |
| Brittany | Install Filters for Tours Monument | 25 | 1,500 |
| Sicily-Rome | Renovation Pittosporum Hedgerow Surrounding Center | 25 | 8,700 |
| Oise-Aisne | Replace Gutters on Visitors/Quarters Building | 25 | 5,500 |
| Mexico City | Replace Roof Garage Area | 25 | 1,000 |
| Brittany | Install information panel at Tours Monument | 25 | 5,000 |
| Rhone | Remodelling of Service Bldg Shower/Toilet Facility | 25 | 4,000 |
| Meuse Argonne | Replace Roofs on Garage Buildings | 25 | 90,000 |
| Brittany | Install Information Panel at Brest Monument | 25 | 5,000 |
| North Africa | Repair sinking curbstone in front of Office area | 25 | 5,000 |
| Brookwood | Relevel Walkways & Headstone beams | 25 | 50,000 |
| Manila | Upgrade Asst Superintendent's Master Bath | 25 | 5,000 |
| Flanders Field | Repair Walkway at Oudenarde Monument at Plane Tree | 25 | 1,000 |
| Sicily-Rome | Replacement of office/visitors building doors | 25 | 2,000 |
| Garches | Replace Carpeting in Reception Area | 25 | 4,000 |
| Lorraine | Build Handicap Toilet Facilities | 32 | 15,000 |
| Sicily-Rome | Replace Rain Gutters & Down Spouts Garage/Svc Area | 25 | 2,500 |
| Lorraine | Install New Filtration System | 25 | 200,000 |
| Manila | Paint Motor Pool Buildings | 25 | 4,000 |
| Meuse Argonne | Replace Lion's Head at Pool | 25 | 1,500 |
| Florence | Replace Rain Gutters & Down Spouts Garage/Svc Area | 25 | 2,000 |
| Netherlands | Connect Qtrs to City Sewer | 25 | 20,000 |
| Garches | Re-waterproof Director's Office Roof | 25 | 10,000 |
| Lorraine | Refurbish Memorial Bronze Window Frame | 25 | 35,000 |
| Meuse Argonne | Repaint Flagpoles | 25 | 4,000 |
| Lorraine | Clean and Treat (Water-resistant) Memorial | 25 | 100,000 |
| Netherlands | Replace Sprinkler System and Renovate Pump Room | 32 | 300,000 |
| Florence | Drilling of a new artesian deep well | 32 | 40,000 |
| Luxembourg | Replace sprinkler, renovate pumproom | 32 | 220,000 |
| Luxembourg | Install Security Doors on Compost Shed | 25 | 8,300 |
| Somme | Replace sprinkler, renovate pumproom | 32 | 180,000 |
| Somme | Repair Water Softener | 25 | 1,000 |
| Ardennes | Replace Sprinkler System, renovate pumproom | 32 | 200,000 |
| Normandy | Install Information Panel at Pointe du Hoc | 32 | 5,000 |
| Saint Mihiel | Replace sprinkler, renovate pumproom | 32 | 200,000 |
| Rhone | Install Drainage line in Lower Grave Plots area | 25 | 8,000 |
| Henri Chapelle | Replace Sprinkler System and Renovate Pump Room | 32 | 230,000 |
| Henri Chapelle | Replace Kitchen Cabinets, Both Quarters | 25 | 23,000 |
| Meuse Argonne | Construct an Oil-Water Separator at Wash Rack | 25 | 2,000 |
| Oise Aisne | Replace Storage Bldg & Apron | 25 | 40,000 |
| Manila | Water Purification System (Irrigation) | 32 | 170,000 |
| Aisne Marne | Replace Roof on Compost Shed | 25 | 15,000 |
| Aisne Marne | Treat Wood Frame of Compost Shed | 25 | 5,000 |
| Henri Chapelle | Repair Roof of Transformer Bldg | 25 | 1,000 |
| North Africa | Renovation of Visitors Toilets to include handicap | 32 | 10,000 |
| Meuse Argonne | Reset Coping Stones on Memorial Retaining Wall | 25 | 3,000 |
| Aisne Marne | Repaint Flagpoles | 25 | 3,000 |
| Luxembourg | Replace Rusted Stained Glass Window Hinges, Chapel | 25 | 2,500 |
| Sicily-Rome | Replace Bedroom/living room ceiling Supt's Qtrs | 25 | 6,000 |
| Lorraine | Repaint Memorial Ceiling | 25 | 3,000 |
| Somme | Repair Dry Rotted Doors, Mechanical Shop & Garage | 25 | 7,000 |
| Saint Mihiel | Inspect deep well (100 meters depth) | 25 | 10,000 |
| Manila | Refinish Pea Gravel Base Overlay—Cabanatuan | 25 | 6,000 |
| Henri Chapelle | Renovate water reservoir | 25 | 70,000 |

ABMC ENGINEERING BACKLOG AT START FISCAL YEAR 1997—Continued

| Cemetery | Project | Object class | Estimated cost |
|---|---|---|---|
| Ardennes | Construct Public Handicapped Toilet | 32 | 15,000 |
| Cambridge | Install Handicap Toilets | 32 | 10,000 |
| North Africa | Extension of Sprinkling System To Semi-Circular Dr | 32 | 11,500 |
| Henri Chapelle | Reconstruct Public Toilets/install handicap facil | 25 | 45,000 |
| Aisne Marne | Build Public Toilets (include handicap toilets) | 25 | 30,000 |
| Luxembourg | Replace Furnace, Garage Bldg | 25 | 8,000 |
| Rhone | Repaint Exterior of Service Area Bldg & Qtrs | 25 | 8,000 |
| Luxembourg | Replace 2 ea fuel tanks (both Qtrs) | 25 | 12,000 |
| Oise Aisne | Replace 1 ea fuel tank (VB/Qtrs), 1 ea Gasoline Ta | 25 | 25,000 |
| Saint Mihiel | Replace 2 ea Fuel tanks, 1 ea Gas Tank | 25 | 20,000 |
| Manila | Construct an Oil Storage Building | 32 | 4,000 |
| Aisne Marne | Replace 2 ea (Visitors Bldg/ Qtrs) fuel tanks | 25 | 15,000 |
| Henri Chapelle | Replace 4 ea Fuel Tanks | 25 | 30,000 |
| Ardennes | Replace 4 ea Fuel Tanks & 1 ea Gas Tank | 25 | 36,000 |
| Sicily-Rome | Renovation and modification of Pump House roof | 32 | 3,500 |
| Brittany | Replace 4 ea Fuel Tanks & 1 ea Gas Tank | 25 | 36,000 |
| Flanders Field | Replace heating system—nursery | 25 | 4,000 |
| Henri Chapelle | Rewire Buildings vic Collonades | 25 | 30,000 |
| Sicily-Rome | Install auto irrigation system front of res'vation | 32 | 2,000 |
| Aisne Marne | Check Lightning Arrestor System at Memorial | 25 | 500 |
| Flanders Field | Insulate Qtrs Attic | 25 | 500 |
| Cambridge | Renovate Toilets in Visitors Bldg | 25 | 5,000 |
| Corozal | Upgrade Sprinkler System | 32 | 3,000 |
| Epinal | Install Road Signs | 25 | 1,000 |
| Normandy | Extend Sprinkler System to Nursery Area | 25 | 2,000 |
| Saint Mihiel | Remove electric cable and fuel tank pipes at Qtrs | 25 | 1,000 |
| Florence | Rent platform to paint Flagpole & clean Pylon | 25 | 3,000 |
| Aisne Marne | Replace Heating in Garage & Refectory (Svc Area) | 25 | 15,000 |
| Flanders Field | Restructure Service Area | 32 | 110,000 |
| Oise Aisne | Repaint Entrance Gates | 25 | 500 |
| Sicily-Rome | Extension of boiler room entrance Asst Supt Qtrs | 32 | 2,500 |
| Suresnes | Repair Perimeter Fence (5th and 6th phases) | 25 | 12,000 |
| Somme | Reset Stone on South-West Chapel Gate | 25 | 1,500 |
| Henri Chapelle | Replace High Volt. Transformer and Change Amperage | 25 | 20,000 |
| Corozal | Replace Roof, Chapel | 25 | 5,000 |
| Somme | Paint the Lettering on Entrance Wall & Chapel | 25 | 1,000 |
| Flanders Field | Replace 3 ea Fuel Tanks | 25 | 20,000 |
| Henri Chapelle | Inspect deep well (100 meters depth) | 25 | 10,000 |
| Sicily-Rome | Install Security Grilles, Supt's Qtrs | 25 | 5,650 |
| Suresnes | Repaint iron work on Fence (5th and 6th phases) | 25 | 6,000 |
| Epinal | Replace Roof Tiles on All Service Bldgs | 25 | 45,000 |
| Saint Mihiel | Repoint Stairs and Walls at Montsec Monument | 25 | 2,000 |
| Sicily-Rome | Replace entrance doors both residences | 32 | 5,000 |
| Henri Chapelle | Construct Visitor's Room and Office | 32 | 100,000 |
| Ardennes | Replace Window (Insulating) in Workers Refectory | 25 | 500 |
| Netherlands | Engrave MIA name (J. Howell) on Wall of Missing | 25 | 6,750 |
| Manila | Upgrade Canteen (Replace Roof & Ceiling) | 25 | 5,000 |
| Meuse Argonne | Improve Crew Latrines/Lunchroom in Service Area | 25 | 2,000 |
| Epinal | Improve Heating in Service Area | 25 | 5,000 |
| Luxembourg | Restructure Staff Area in Service Area | 25 | 4,000 |
| Sicily-Rome | Install Security Grilles, Asst. Supt's Qtrs | 25 | 5,000 |
| Somme | Install Thermostatic Valves on Pump Room Radiators | 25 | 500 |
| Meuse Argonne | Install Chemical Toilets at Sommepy Mounument | 25 | 10,000 |
| Netherlands | Replace Calcified Water Lines in Qtrs | 25 | 6,000 |
| Sicily-Rome | Extension of the Cemetery Office, renovation of WC | 32 | 12,000 |
| Meuse Argonne | Install all utilities at Sommepy Monument | 32 | 50,000 |

ABMC ENGINEERING BACKLOG AT START FISCAL YEAR 1997—Continued

| Cemetery | Project | Object class | Estimated cost |
|---|---|---|---|
| Somme | Repaint Map at Bellicourt Monument | 25 | 500 |
| Epinal | Resurface Roof of Pump House | 25 | 15,000 |
| Manila | Upgrade Superintendent's Guest Bath | 25 | 5,000 |
| Brittany | Clean Tours Monument | 25 | 250 |
| Brittany | Reset Stones at Entrance Gate | 25 | 50,000 |
| Brookwood | Construct Toilet Facilities/Enlarge Office & Break | 32 | 40,000 |
| Sicily-Rome | Convert two doors into windows, Asst Supt Qtrs | 25 | 1,700 |
| Ardennes | Replace Furnace in Service Bldg | 25 | 5,000 |
| Ardennes | Modify Fire Hydrant System/Sep From Sprinkler Sys | 25 | 10,000 |
| Normandy | Install Heating System in #2 Work Shop | 32 | 9,000 |
| Rhone | Enclosing of Garage Annex | 32 | 1,000 |
| Suresnes | Extend Office | 32 | 75,000 |
| Suresnes | Install Curtain Rods & Curtains in Qtrs | 32 | 3,000 |
| Suresnes | Replace Curtains and Drapes in Visitors Bldg | 32 | 2,000 |
| Manila | Repave Roads (Phase I) | 32 | 120,000 |
| Suresnes | Repair/Repaint West Perimeter Fence (Behind Cem.) | 25 | 50,000 |
| Normandy | Replace Expansion Joints in Reflecting Pool | 25 | 1,000 |
| Saint Mihiel | Replace Roof of Green House | 25 | 1,500 |
| Florence | Replace Roses, Office/Visitors Bldg/Flagpole Area | 25 | 4,000 |
| Cambridge | Insulate Attic in Both Quarters | 25 | 3,000 |
| Aisne Marne | Repaint Reservoir Roof | 25 | 500 |
| Flanders Field | Replace Zinc Flashing on Edge Visitor's Bldg Roof | 25 | 500 |
| North Africa | Replace Air Conditioner Units, Dual System (7 ea) | 25 | 6,000 |
| Aisne Marne | Repair Leaks in Structure Drainage System, Chapel | 25 | 5,000 |
| Lorraine | Repair Gutters on Compost Shed | 25 | 1,000 |
| Henri Chapelle | Replace roof tiles on Service Building | 25 | 3,000 |
| Corozal | Replace Roof, Public Rest Rooms | 25 | 4,000 |
| Lorraine | Replace Gutters, Downspouts and Zinc Flashing | 25 | 15,000 |
| Oise Aisne | Install Wall Insulation In Attic Next to Master BR | 25 | 500 |
| Oise Aisne | Refinish Entrance Floors in Quarters | 25 | 500 |
| Rhone | Replace of Five Window Shutters, Supt's Qtrs | 32 | 3,000 |
| Epinal | Repaint Interior of Supt's Qtrs | 25 | 1,500 |
| Brittany | Install Burglar Alarms in Both Qtrs | 25 | 5,000 |
| Somme | Install Security Railing in Qtrs Attic | 25 | 1,500 |
| Florence | Replace Cemetery Wooden Benches | 25 | 1,600 |
| Meuse Argonne | Modify Lightning Arrestors at Sommepy Monument | 25 | 9,000 |
| Henri Chapelle | Repaint Reservoir Domes | 25 | 2,000 |
| Ardennes | Install Security Alarms | 32 | 8,000 |
| Corozal | Replace Electrical System, Chapel | 25 | 15,000 |
| Ardennes | Water Proof Pump House Ceiling | 32 | 2,000 |
| Normandy | Install Security System in Service Area | 32 | 6,500 |
| Oise-Aisne | Repair Memorial Roof to Stop Water Infiltration | 25 | 5,000 |
| Sicily-Rome | Put Aggregate Stone Tiles North Garden | 32 | 11,000 |
| Normandy | Install Window Security Bars in Service Area | 25 | 2,000 |
| Normandy | Replace Orientation Table Security Railing | 25 | 8,000 |
| Brittany | Install Rolling Shutters and Screens at Both Qtrs | 25 | 11,000 |
| Florence | Lower, & Level Turf Below Height of Cross 1st Pha | 25 | 37,000 |
| Aisne Marne | Renovate Electrical Wiring in Compost Shed | 25 | 2,800 |
| Henri Chapelle | Insulate Storage Room/Install Radiator (Svc. Area) | 25 | 7,000 |
| Ardennes | Replace Two Rolling Doors and Enclose Staircase | 25 | 15,000 |
| Manila | Replace Handrails to Memorial Public Restrooms | 32 | 12,300 |
| Suresnes | Replace Service Building Locking System | 25 | 500 |
| Cambridge | Transform Long-Step Stairway | 25 | 15,000 |
| Saint Mihiel | Replace Heating Pipes in Boiler Room | 25 | 1,500 |
| Sicily-Rome | Place Aggregate Stone Tiles Memorial Toilet | 32 | 2,000 |
| Normandy | Reforest Peripheral Areas (Replace Black Pines) | 32 | 10,000 |

ABMC ENGINEERING BACKLOG AT START FISCAL YEAR 1997—Continued

| Cemetery | Project | Object class | Estimated cost |
|---|---|---|---|
| Brittany | Construct Handicap Access Ramp for Chapel | 32 | 15,000 |
| Oise-Aisne | Construct Handicapped Facilities (Modify Toilet) | 32 | 15,000 |
| Florence | Motorize 3 Roll-up Doors, Service Group Area | 25 | 4,000 |
| Epinal | Replace Fuel Gauges (3 ea) | 25 | 500 |
| Epinal | Replace 110v Transformer & Distribution Box | 25 | 500 |
| Suresnes | Relocate Gasoline Pump/Storage Tank to Svc. Area | 25 | 10,000 |
| Manila | Replace Underground Fuel Storage Tanks | 32 | 20,000 |
| Suresnes | Upgrade Electrical Power in North Service Area | 25 | 10,000 |
| Garches | Construct Handicap Access Ramp | 25 | 2,000 |
| Garches | Modify Toilet for Handicapped Access | 25 | 2,000 |
| Sicily-Rome | Renovation and modification of Generator Room | 32 | 5,000 |
| Meuse Argonne | Install Water Softener in Visitors Building | 25 | 2,000 |
| Netherlands | Replace Stone Steps Around Flagpole | 25 | 2,000 |
| Netherlands | Replace Venetian Blinds in Visitors Bldg Office | 25 | 4,000 |
| Sicily-Rome | Build Concrete Bed for Canal Running into Reservoi | 25 | 3,000 |
| Netherlands | Replace Roll-up Door in Mower Bldg | 25 | 3,500 |
| Netherlands | Paint Floor in Service Area | 25 | 1,000 |
| Flanders Field | Sand/Seal Wooden Floor in Visitor's Bldg | 25 | 1,000 |
| Manila | Renovate Guard House | 25 | 5,000 |
| Meuse Argonne | Rebronze Doors of Montfaucon Monument | 25 | 1,500 |
| Oise Aisne | Repoint Rear Wall of Memorial (3rd phase/3 | 25 | 500 |
| Aisne Marne | Clean and treat chimneys & windows (limestone) | 25 | 1,000 |
| Florence | Replace Pebble Mall Paths with Pebble Tiles | 32 | 36,000 |
| Aisne Marne | Repair Cracked Stones on Flagpole Base | 25 | 1,000 |
| Aisne Marne | Repair South-Side Bronze Door Frame | 25 | 10,000 |
| Saint Mihiel | Repair and Paint Perimeter Fence | 25 | 1,000 |
| Sicily-Rome | Renovation of Lathhouse Building | 25 | 8,000 |
| Somme | Repaint Perimeter Fence at Cantigny Monument | 25 | 1,000 |
| Somme | Reset or Grind Stone in Flagpole Base | 25 | 1,000 |
| Suresnes | Clean the Cornice of Memorial | 25 | 10,000 |
| Manila | Install Automatic Sprinklers (Phase II) | 32 | 45,000 |
| Suresnes | Replace information board | 25 | 1,000 |
| Ardennes | Replace Damaged Bricks, Exterior Wall of Vis. Ctr | 25 | 10,000 |
| Henri Chapelle | Replace 3 stones in Wall of Missing | 25 | 2,000 |
| Florence | Build Retaining Wall in Front of Dam | 32 | 90,000 |
| Lorraine | Repair Path to Overlook | 25 | 2,000 |
| Henri Chapelle | Repaint Pump Room | 25 | 2,500 |
| Saint Mihiel | Repaint exterior walls of Qtrs | 25 | 3,000 |
| Florence | Install Alarm System On Entrance Cemetery Bridge | 25 | 2,400 |
| Somme | Repair stone damage in Perimeter Wall | 25 | 4,500 |
| Aisne Marne | Repair and Paint Perimeter Fence | 25 | 6,000 |
| Netherlands | Retile Floor in Visitors Bldg Office | 25 | 2,000 |
| Manila | Drill New Well | 32 | 90,000 |
| Lorraine | Repair and Paint Chain-link Perimeter Fence | 25 | 15,000 |
| Epinal | Repair Perimeter Fence | 25 | 1,000 |
| Somme | Repaint Transformer Building | 25 | 750 |
| Florence | Install Floor Tiles Service Group Building | 32 | 1,500 |
| Aisne Marne | Repair Retaining Wall of Memorial | 25 | 1,500 |
| Ardennes | Repair Concrete Pavement Next to Compost Shed | 25 | 2,000 |
| Flanders Field | Repoint Perimeter Wall | 25 | 2,000 |
| Sicily-Rome | Replace Capstone on Boundary Walls | 25 | 2,000 |
| Meuse Argonne | Repair and Repoint Perimeter Wall | 25 | 2,000 |
| Oise Aisne | Repoint and Repair Perimeter Wall | 25 | 2,000 |
| Saint Mihiel | Repoint and Repair Perimeter Wall | 25 | 7,000 |
| Manila | Repave Roads (Phase II) | 32 | 125,000 |
| Suresnes | Relevel Headstone Beams | 25 | 45,000 |

ABMC ENGINEERING BACKLOG AT START FISCAL YEAR 1997—Continued

| Cemetery | Project | Object class | Estimated cost |
|---|---|---|---|
| Saint Mihiel | Install information panel at Montsec Monument | 32 | 5,000 |
| Meuse Argonne | Construct garage at Asst Supt Qtrs | 32 | 10,000 |
| Rhone | Resurface Visitors' Parking Lot | 32 | 40,000 |
| Aisne Marne | Repair/Repaint Basement Windows, Chateau Thierry | 25 | 4,000 |
| Henri Chapelle | Repair Stone Wall and Gate Near North Parking Area | 25 | 3,000 |
| Brookwood | Spread Additional Gravel on Walkways | 25 | 5,000 |
| Manila | Install Automatic Gate Opener (Main Entrance) | 32 | 4,000 |
| Meuse Argonne | Relevel 2 steps at Montfaucon Monument | 25 | 500 |
| Netherlands | Clean Copper Sulfate Stains from Statue Stone Base | 25 | 500 |
| Flanders Field | Regild Door of Chapel | 25 | 1,000 |
| Rhone | Resurface of Service Road | 32 | 16,000 |
| Epinal | Repair Cemetery Roads | 25 | 10,000 |
| Henri Chapelle | Repair Roads and Walkways | 25 | 3,000 |
| Meuse Argonne | Repair Chapel Service Road | 25 | 20,000 |
| Manila | Replace/Install Electric Aluminum Garage Bay Door | 32 | 30,000 |
| Netherlands | Resurface Perimeter Road | 25 | 35,000 |
| Suresnes | Reconstruct Memorial Terrace/cracked retain. wall | 25 | 100,000 |
| Somme | Install Stone Road Sign at Bellicourt Monument | 25 | 500 |
| Rhone | Replacement of Fence from NE to SW Side of Cemeter | 32 | 7,500 |
| Somme | Install Stone Road Sign at Cantigny Monument | 25 | 500 |
| Meuse Argonne | Resurface Roads and Walkways with Asphalt | 32 | 60,000 |
| Henri Chapelle | Replace Remaining Single-Pane Window in Attic | 25 | 1,000 |
| Manila | Construct Perimeter Road | 32 | 25,000 |
| Luxembourg | Replace rug in Visitors Bldg | 25 | 500 |
| Brittany | Replace Wooden Gates w/Aluminum | 25 | 10,000 |
| Meuse Argonne | Resurface Esplanade at Montfaucon Monument | 25 | 15,000 |
| Manila | Construct Road to Compost Area | 32 | 25,000 |
| Somme | Resurface all Walkways | 25 | 70,000 |
| Somme | Resurface Parking Area at Bellicourt Monument | 25 | 100,000 |
| Lorraine | Resurface Roads and Walkways | 25 | 75,000 |
| Luxembourg | Resurface Cemetery Walkways | 25 | 90,000 |
| Aisne Marne | Rebuild other roads (Water Res'v'r & Compost Shed) | 25 | 40,000 |
| Epinal | Resurface Cemetery Walkways | 32 | 150,000 |
| Meuse Argonne | Extend Roof of Memorial to Eliminate Water Seepage | 32 | 25,000 |
| Aisne Marne | Resurface Parking Area/Walkways at Chateau Thierry | 25 | 50,000 |
| Aisne Marne | Rebuild road in Belleau Wood | 25 | 60,000 |
| Netherlands | Replace Curtains/Reupholster Furniture in Vis Ctr | 25 | 5,000 |
| Aisne Marne | Repair Drainage Problem and Repoint Memorial Steps | 25 | 5,000 |
| Somme | Refinish Floor in Visitors Center (Entrance Foyer) | 25 | 2,000 |
| Saint Mihiel | Clean Montsec Monument | 25 | 150,000 |
| Meuse Argonne | Repair Terrace in Front of Montfaucon Monument | 25 | 30,000 |
| Epinal | Replace Gravel in Front of Chaumont Tablet | 25 | 500 |
| Epinal | Reasphalt Entrance Road | 25 | 75,000 |
| Brittany | Replace Asphalt Pavement at Tours Monument | 25 | 6,000 |
| Brittany | Replace Sidewalk to Public Toilets | 25 | 2,000 |
| Oise-Aisne | Reasphalt Interior Walkways | 25 | 40,000 |
| Ardennes | Repoint Memorial Podium and Steps | 25 | 40,000 |
| Oise-Aisne | Replace Outside Entrance Lights—VB & Qtrs | 25 | 1,000 |
| Netherlands | Renovate Pump System for Reflecting Pool | 25 | 8,000 |
| Ardennes | Repair and Maintain Asphalt Service Roads | 25 | 20,000 |
| Ardennes | Repair Back Wall of Compost Shed | 25 | 5,000 |
| Ardennes | Rebuild Wash Rack w/Oil-Water Separator | 25 | 5,000 |
| Normandy | Resurface 4 Cemetery Walkways | 25 | 60,000 |
| Normandy | Repair Beach Path | 25 | 25,000 |
| Normandy | Replace Cubicle Partitions in Public Toilets | 25 | 10,000 |
| Normandy | Engrave 2 Stone Pillars at Garden of the Missing | 32 | 1,500 |

ABMC ENGINEERING BACKLOG AT START FISCAL YEAR 1997—Continued

| Cemetery | Project | Object class | Estimated cost |
|---|---|---|---|
| Normandy | Repair Employee Parking Lot (Service Area) | 25 | 2,000 |
| Normandy | Repair Cemetery Access Road Surface | 25 | 12,000 |
| Normandy | Repair 300m of Access Road's Shoulders | 25 | 1,000 |
| Normandy | Replace 2 Water Softeners | 25 | 6,000 |
| Normandy | Repair Roads/Parking Lot/Walkways at Pt du Hoc | 25 | 14,000 |
| Netherlands | Replace Museum Glass Shields with Safety Glass | 25 | 5,000 |
| Cambridge | Replace Curb Stones at Parking Lot | 25 | 2,000 |
| Oise-Aisne | Resurface East-West Axis Walkways | 25 | 10,000 |
| Oise-Aisne | Repaint Basement of Visitor's/Qtrs Bldg | 25 | 1,500 |
| Oise-Aisne | Paint Interior of Visitors Reception Room | 25 | 1,000 |
| Oise-Aisne | Renovate Toilets of Visitors Bldg | 25 | 1,500 |
| Oise-Aisne | Repair Service Access Road | 25 | 3,000 |
| Oise-Aisne | Install Cabinets and Sink in Refectory | 32 | 2,000 |
| Suresnes | Refurbish Bronze Base of Flagpoles | 25 | 1,500 |
| Meuse Argonne | Paint Interior of Service Area Garage | 25 | 1,000 |
| Meuse Argonne | Replace Water Softener in Supt's Qtrs | 25 | 750 |
| Normandy | Resurface Gravel Walkways, Garden of the Missing | 25 | 1,000 |
| Cambridge | Resurface Cemetery Roads | 25 | 30,000 |
| Brittany | Paint Exterior of Five Buildings | 25 | 16,000 |
| Brittany | Install False Ceiling and Radiators in Garage Bay | 25 | 3,500 |
| Brittany | Replace Toilets in Visitors Bldg | 25 | 6,500 |
| Brookwood | Replace Driveway at Qtrs | 25 | 5,000 |
| Cambridge | Resurface Parking Lot Road Near Visitors Bldg | 25 | 10,000 |
| Luxembourg | Refinish Pews and Kneelers in Chapel | 25 | 1,000 |
| Garches | Replace Worn Carpeting (Phase 2) | 25 | 5,000 |
| Aisne Marne | Clean & treat Stone on Qtrs and Visitors Bldg | 25 | 2,000 |
| Normandy | Repair Perimeter Fence | 25 | 3,000 |
| Luxembourg | Replace Visitors Building Furnace | 25 | 8,000 |
| Saint Mihiel | Improve water supply, clean deep well | 25 | 40,000 |
| Somme | Improve Water Supply (Drill New Well) | 25 | 300,000 |
| Aisne Marne | Replace Gutters on Compost Shed | 25 | 500 |
| Ardennes | Replace Gutters on Compost Shed | 25 | 1,000 |
| Lorraine | Repaint Roof of Public Toilet Facility | 25 | 750 |
| Henri Chapelle | Replace gutters of Service Building | 25 | 1,000 |
| Lorraine | Repaint Roof of Visitors Building | 25 | 1,000 |
| Saint Mihiel | Seal Asphalt Parking Area at Montsec Monument | 25 | 4,000 |
| Ardennes | Replace Memorial Furnace | 25 | 50,000 |
| Lorraine | Seal Parking Lot in Service Area | 25 | 1,000 |
| Netherlands | Repair Rain Water Drains | 25 | 2,000 |
| Netherlands | Inspect and Repair Service Area Roofs | 25 | 8,000 |
| Normandy | Replace Roofs Both Quarters | 25 | 25,000 |
| Normandy | Replace Annex Building Roof Gutters | 25 | 1,000 |
| Lorraine | Replace Gutters on Visitors Bldg and Public Toilet | 25 | 10,000 |
| Suresnes | Treat Chapel Ceiling with Preservative | 25 | 12,000 |
| Cambridge | Improve Maintenance Shop in Service Area | 25 | 2,000 |
| Suresnes | Install urinal and sink in Service Area | 25 | 2,000 |
| Aisne Marne | Replace gas tank and pump, Service Area | 25 | 20,000 |
| Oise Aisne | Extend Roof of Garage to Create a Lean-to Storage | 25 | 3,000 |
| Henri Chapelle | Improve water supply, clean deep well | 25 | 40,000 |
| Saint Mihiel | Install Paving Stones at Memorial | 25 | 2,000 |
| Somme | Renovate Perimeter Fence w/ Post Lead Anchors | 25 | 2,000 |
| Netherlands | Enclose Compost Shed | 32 | 10,000 |
| Cambridge | Enclose Compost Shed | 32 | 10,000 |
| Epinal | Construct Interior Dividing Walls in Compost Shed | 32 | 5,000 |
| Epinal | Install Recirculation System for Both Pools | 32 | 15,000 |
| Normandy | Install curbstones access road | 32 | 45,000 |

ABMC ENGINEERING BACKLOG AT START FISCAL YEAR 1997—Continued

| Cemetery | Project | Object class | Estimated cost |
|---|---|---|---|
| Oise Aisne | Install heating in Visitors Bldg Attic | 32 | 250 |
| Epinal | Construct staff facility area | 32 | 50,000 |
| Ardennes | Paint Mechanic Workshop in Service Bldg | 25 | 500 |
| Epinal | Paint Floor in Workshop | 25 | 1,000 |
| Normandy | Improve Shed Service Area #2 | 25 | 15,000 |
| Aisne Marne | Install New Service Building | 25 | 50,000 |
| Cambridge | Resurface Walkways to Eliminate Gravel | 32 | 150,000 |
| Aisne Marne | Emplace Concrete Borders Around Traffic Island | 32 | 2,000 |
| Somme | Install Fence Around Grassy Area at Bellicourt Mon | 32 | 30,000 |
| Ardennes | Install Thermostat Valves in Qtrs | 25 | 2,000 |
| Lorraine | Install Hand Dryers in Visitor's Toilets | 32 | 1,000 |
| Aisne Marne | Renovate Basement Rooms for Caretaker's Office | 25 | 35,000 |
| Normandy | Improve toilets facilities, Pointe du Hoc | 32 | 100,000 |
| Suresnes | Widen and Resurface Cemetery Walkways | 25 | 60,000 |
| Lorraine | Repair, Resurface Memorial Area Walkways | 25 | 55,000 |
| Normandy | Repair & Install Automatic Gate Main Entrance | 32 | 15,000 |
| Garches | Enlarge Parking Area | 25 | 1,000 |
| Aisne Marne | Relocate Offices in Visitors Building | 25 | 3,000 |
| Saint Mihiel | Relocate Entrance Gate at Qtrs | 25 | 1,000 |
| Saint Mihiel | Install Gate on Access Road to Montsec Monument | 25 | 3,000 |
| Lorraine | Replace Ceiling in Supt's Office in Visitors Bldg | 32 | 1,500 |
| Lorraine | Install Sprinkler System for Meadow Area | 32 | 10,000 |
| Epinal | Construct Heated Chemical Storage Shed | 32 | 5,000 |
| Normandy | Construct Replacement Storage Building | 32 | 50,000 |
| Netherlands | Construct Permanent Stone Handicapped Ramps | 32 | 30,000 |
| Ardennes | Install 1.5m Chain Link Fence Around Perimeter | 32 | 30,000 |
| Ardennes | Construct Truck Loading Ramp in Compost Area | 32 | 5,000 |
| Ardennes | Construct Retaining Wall in Compost Area | 32 | 10,000 |
| Normandy | Tile Wood Working and Mechanic Shop Floors | 32 | 3,000 |
| Normandy | Install 4 Metal Gates in Overflow Parking Area | 32 | 5,000 |
| Suresnes | Install Air-compressor in North Service Area | 32 | 3,000 |
| Ardennes | Relocate Youth Statue | 25 | 10,000 |
| Meuse Argonne | Replace Perimeter Fence | 25 | 5,000 |
| Netherlands | Install Upstairs Toilet in Supt's Qtrs | 25 | 1,000 |
| Epinal | Install second toilet in Both Qtrs | 32 | 2,500 |
| Epinal | Renovate Kitchens in Qtrs | 25 | 15,000 |
| Netherlands | Paint Garage Floors in Both Qtrs | 25 | 500 |
| Normandy | Paint Basement Walls and Floor of Memorial | 25 | 500 |
| Aisne Marne | Repaint Basement and Garage Floor, Visitors Bldg | 25 | 1,000 |
| Ardennes | Replace Sidewalk in Front of Supt Qtrs | 25 | 5,000 |
| Saint Mihiel | Repaint basement in Qtrs | 25 | 1,000 |
| Normandy | Replace kitchen cabinets, both Quarters | 25 | 20,000 |
| Meuse Argonne | Install 2 Bedrooms in Asst Supt Qtrs | 32 | 10,000 |
| Henri Chapelle | Construct Veranda both Qrts | 32 | 50,000 |
| Cambridge | Install a Veranda at Supt's Qtrs | 32 | 13,000 |
| Brookwood | Enlarge and improve Supt's Qtrs | 32 | 50,000 |
| Netherlands | Install Rolling Shutter in Supt Qtrs vic Veranda | 32 | 1,250 |
| Epinal | Install Two Hand Dryers in Visitors Bldg | 25 | 500 |
| Netherlands | Install Hand Dryers in Public Toilets | 25 | 750 |
| Henri Chapelle | Install Hand Dryers in Public Toilets | 25 | 500 |
| Cambridge | Replace carpeting in Asst Supt Qtrs | 25 | 2,000 |
| Aisne Marne | Sand and Varnish Floors in Qtrs | 25 | 5,000 |
| Ardennes | Replace Wall to Wall Carpeting in Both Qtrs | 25 | 5,000 |
| Ardennes | Renovate bathroom in Supt Qtrs | 25 | 1,000 |
| Netherlands | Install New Carpeting in Asst. Supt's Qtrs | 25 | 3,000 |
| Brittany | Renovate bathrooms in Qtrs (Bathtub & Sink) | 25 | 5,000 |

ABMC ENGINEERING BACKLOG AT START FISCAL YEAR 1997—Continued

| Cemetery | Project | Object class | Estimated cost |
|---|---|---|---|
| Netherlands | Renovate upstairs bathroom in Supt's Qtrs | 25 | 1,500 |
| Normandy | Renovate bathroom in Asst Supt's Qtrs | 25 | 1,000 |
| Aisne Marne | Renovate Kitchen in Qtrs (Tile & Paint) | 25 | 2,000 |
| Epinal | Renovate Bathrooms in Both Qtrs | 25 | 10,000 |
| Normandy | Install Dormer Windows, Asst Supt's Qtrs | 25 | 10,000 |
| Epinal | Construct Veranda in both Qtrs | 32 | 50,000 |
| Epinal | Construct Front Porch Overhang for Supt's Qtrs | 32 | 5,000 |
| Ardennes | Construct Veranda Both Qtrs | 32 | 50,000 |
| Ardennes | Renovate Attic in Asst Qtrs & Construct Staircase | 32 | 35,000 |
| Ardennes | Tile Basement Floor in Both Qtrs | 32 | 5,000 |
| Ardennes | Replace Kitchen Floor Tiles in Asst Supt's Qtrs | 25 | 1,000 |
| Normandy | Renovate Attic in Asst Supt Qtrs | 32 | 15,000 |
| Normandy | Construct Garage in Supt Qtrs | 32 | 15,000 |
| Normandy | Tile Storage Area Floors Both Qtrs | 32 | 3,000 |
| Normandy | Extend Garage—Asst Supt Qtrs | 32 | 5,000 |
| Oise-Aisne | Renovate Bathrooms in Supt's Qtrs | 25 | 4,000 |
| Ardennes | Repaint Interior of Asst Supt Qtrs | 25 | 2,000 |
| Suresnes | Renovate Supt's Qtrs Bathroom | 25 | 5,000 |
| Brookwood | Construct Extension of Entrance to Supt's Qtrs | 32 | 20,000 |
| Cambridge | Sandblast Chimney on Visitors Building | 25 | 152 |
| Lorraine | Repair Furnace in Service Area | 25 | 306 |
| Garches | Construct Fire Escape | 25 | 2,500 |
| Aisne Marne | Resurface Road, Belleau Wood Towards Lucy (1.1 km) | 25 | 100,000 |
| Aisne Marne | Construct Handicapped Ramp to Visitors Bldg | 25 | 5,000 |
| Flanders Field | Replace Well Head Hatch | 25 | 1,500 |
| Flanders Field | Renovate Oudenarde Monument Bunker | 25 | 1,000 |
| Flanders Field | Improve Drainage vic Visitors Bldg Walkway | 25 | 2,000 |
| Netherlands | Replace Damaged Stones Around Memorial | 25 | 12,000 |
| Netherlands | Replace Sidewalk at Supt's Qtrs | 25 | 1,500 |
| Netherlands | Improve Attic Insulation Both Qtrs | 25 | 3,000 |
| Normandy | Install Handrail Utah Beach Fed Monument Staircase | 32 | 3,000 |
| Oise Aisne | Sand & Varnish Hardwood Floors in Visitors Bldg | 25 | 1,500 |
| Oise Aisne | Paint Small Metal Storage Bldg, Pump Rm, Reservoir | 25 | 2,000 |
| Somme | Construct Water Reservoir & Pump House | 32 | 50,000 |
| Suresnes | Repaint Boulevard Fence Near Qtrs | 25 | 3,000 |
| Suresnes | Improve Drainage System (4 Blocked Drains) | 25 | 15,000 |
| Brittany | Install New Drainage Field Asst Supt Qtrs | 25 | 10,000 |
| Normandy | Replace Electric Hand Dryers in Public Toilets | 25 | 1,000 |
| Netherlands | Clean Back Side of Wall of Missing | 25 | 9,000 |
| Brookwood | Replace Gas Furnace, Supt Qtrs | 25 | 2,500 |
| Normandy | Paint Garage Floor in Service Bldg | 25 | 2,000 |
| Grand Total | | | 10,191,671 |

## DEPARTMENT OF DEFENSE—CIVIL

### CEMETERIAL EXPENSES, ARMY

**STATEMENT OF STEVEN DOLA, DEPUTY ASSISTANT SECRETARY FOR MANAGEMENT AND BUDGET, OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY FOR CIVIL WORKS**

Senator BOND. We will now go to Mr. Steve Dola.

Mr. DOLA. Thank you very much, Mr. Chairman. I appreciate the opportunity to appear before the subcommittee today and testify, as you pointed out, in support of the fiscal year 1998 Cemeterial Expenses, Department of the Army budget request.

Senator BOND. Let me say we have a letter from Secretary Lancaster, a good friend, who points out that we have managed to schedule a conflict for him, and we appreciate the fact that you are able to attend and sorry that we conflicted with a hearing on the House side. So thank you very much for being here.

Mr. DOLA. Mr. Chairman, Secretary Lancaster very much wanted to be here in person. As you know, he is defending the water resources program over in the House this morning.

As you indicated, our budget request is $11,815,000 and it will finance operations at both Arlington and Soldiers' and Airmen's Home National Cemeteries. The full-time permanent positions in 1998 will be 117, down from a total of 121 in 1997 and 128 authorized in 1996. We have three programs: operation and maintenance, administration, and construction.

The operation and maintenance program, $8,779,000, will provide for the cost of daily operations necessary to support an average of 20 services daily and for maintenance of approximately 630 acres. This program supports 111 of the 117 full-time permanent positions in 1998. We plan to perform the same amount of work contractually that previously was performed by civil servants and direct the contractors to take on additional tasks that need to be accomplished. Grounds maintenance, tree and shrub maintenance, custodial services, guide service, and information receptionists and headstone setting, realignment and cleaning are major functions performed by contract personnel.

The administration program, $599,000, provides for essential management and administrative functions, to include staff supervision of Arlington and Soldiers' and Airmen's Home National Cemetery.

The construction program funded—requested at $2,437,000, provides $1,175,000 to replace the Custis Walk, $810,000 to construct Columbarium access roads, and $350,000 to continue the graveliner program and other minor items.

Finally, with regard to the Columbarium, the 11,286 niche capacity of Columbarium phase 3, currently under construction, will bring the total niches in the Columbarium complex to 31,286.

Phase 1, completed in 1984, phase 2, completed in 1991, each provided 10,000 niches. The North Court will be completed in October 1997 and the South Court will be completed in June 1998.

At this time there remain only about 2,000 niches in phase 2, so we are right on time with the additional capacity.

For that, Mr. Chairman, and for the subcommittee's support of past appropriations for the Columbarium, Arlington National Cemetery and the Army are very grateful. We have a sound budget request for 1998 and we again ask for your support and approval.

PREPARED STATEMENT

That completes my summary, Mr. Chairman.

Senator BOND. Thank you very much Mr. Dola.

[The statement follows:]

PREPARED STATEMENT OF STEVEN DOLA

INTRODUCTION

Mr. Chairman and members of the subcommittee: I appreciate the opportunity to appear before the subcommittee in support of the fiscal year 1998 appropriation request for Cemeterial Expenses, Department of the Army. With me today are Mr. John C. Metzler, Jr., Superintendent of Arlington National Cemetery, and Mr. Rory D. Smith, Budget Officer, also from Arlington National Cemetery. We are appearing on behalf of the Secretary of the Army, who is responsible for the operation and maintenance of Arlington and Soldiers' and Airmen's Home National Cemeteries.

FISCAL YEAR 1998 BUDGET OVERVIEW

The request for fiscal year 1998 is $11,815,000; $215,000 more than the fiscal year 1997 appropriation. The funds requested are sufficient to support the work force, to assure adequate maintenance of the buildings, to acquire necessary supplies and equipment, and to provide maintenance standards expected at Arlington and Soldiers' and Airmen's Home National Cemeteries and include:

—$1,175,000 for replacement of the historic Custis Walk;

—$810,000 for construction of access roads associated with Columbarium Phase III; and

—$200,000 to further expand contracts for enhancing the appearance of the cemetery while implementing government-wide streamlining plans.

The first item is a significant commitment to complete a capital improvement project, which, when completed, will eliminate the heaving and cracks which affect 75 percent of the walkway.

The second item will allow the cemetery to make full utilization of Columbarium Phase III.

The third item continues the initiative begun in fiscal year 1996. In fiscal year 1996 these contractual services were increased by $230,000, in fiscal year 1997 they were increased by an additional $165,000, and in fiscal year 1998 they will be increased by $200,000. Additional work will be performed by these contractors that was not done before and total personnel are being reduced from 128, to 121 and 117, respectively.

The funds requested are divided into three programs, Operation and Maintenance, Administration, and Construction. The principal items in each program are as follows:

The Operation and Maintenance Program, $8,779,000, will provide for the cost of daily operations necessary to support an average of 20 interments and inurnments daily and for maintenance of approximately 630 acres. This program supports 111 of the cemetery's total 117 FTE's. Contractual services, including estimated costs associated with the million dollar grounds maintenance contract, the $775,000 information and guide service contract, $410,000 of contract tree and shrub maintenance, and a $210,000 custodial contract, are estimated to cost $2,947,000.

The Administration Program, $599,000, provides for essential management and administrative functions to include staff supervision of Arlington and Soldiers' and Airmen's Home National Cemeteries. Funds requested will provide for personnel compensation, benefits and the reimbursable administrative support costs of the cemeteries.

The Construction Program, $2,437,000, provides funds as follows: $1,175,000 to replace the historic Custis Walk, $810,000 to construct roads that originally were included as part of Phase III of the Columbarium, $50,000 of minor road repair, $350,000 for the graveliner program, and $45,000 to prepare the final design for the Wash Stand/Fuel Island project.

FUNERALS

In fiscal year 1996, there were 3,325 interments and 1,733 inurnments; 3,500 interments and 1,900 inurnments are estimated in fiscal year 1997; and 3,500 interments and 1,900 inurnments are estimated in fiscal year 1998.

CEREMONIES

Arlington National Cemetery is this Nation's principal shrine to honor the men and women who served in the Armed Forces. It is a visible reflection of America's appreciation for those who have made the ultimate sacrifice to maintain our freedom. In addition to the thousands of funerals, with military honors, held there each year, hundreds of other ceremonies are conducted to honor those who rest in the cemetery. Thousands of visitors, both foreign and American, visit Arlington to participate in these events. During fiscal year 1996, about 2,700 ceremonies were conducted and the President of the United States attended the ceremony on Veterans Day and Memorial Day.

During fiscal year 1996, Arlington National Cemetery accommodated approximately 4 million visitors, making Arlington one of the most visited historic sites in the National Capital Region. This budget includes $35,000 for a study to develop an estimating procedure and reliable estimates of the kinds of visitors that Arlington National Cemetery serves. This increased orientation to our "customers" is consistent with the Government and Performance Results Act and the National Performance Review.

CONSTRUCTION PROJECTS

*New projects in fiscal year 1998*

*Custis Walk.*—The Custis Walkway was constructed in 1879 and is 2,500 feet long. Approximately 75 percent of the walkway is affected by heaving and cracks, requiring visitors to exercise additional care while using the walkway. The design for restoration/replacement has now been completed using fiscal year 1995 appropriations in the amount of $250,000. Construction funding of $1,175,000 is included in the fiscal year 1998 budget submission.

*Columbarium.*—Columbarium roads associated with the Phase III increment are planned in fiscal year 1998 costing an estimated $810,000.

*Construction project underway*

*Columbarium Phase III.*—On July 1, 1996, construction of one of two courts comprising Phase III of the Columbarium began, the contract for construction of the second court was awarded on February 7, 1997, and the construction cost is estimated to be $3,227,100. Construction funds were appropriated in fiscal year 1996 and 1997, respectively. The 11,286 niche combined capacity of the Phase III increment will bring the total niches in the Columbarium Complex to 31,286. Phase I, completed in 1984, and Phase II, completed in 1991, each provided 10,000 niches. The additional 1,286 niche capacity of Phase III was achieved by increasing the square footage or "foot print" of each of the Phase III courts by 10 percent. In addition to providing more niches, the larger "foot print" permits inclusion of a needed rest room and mechanical/storage area into the North court of Phase III, and makes more efficient use of the site.

RECENTLY COMPLETED CONSTRUCTION PROJECTS

*Amphitheater.*—The repair of damage done by rainwater leaks at the Amphitheater and restoration of deteriorated marble there which were begun in July 1994 are now complete. The work included replacing waterproofing membranes; cleaning, patching and repointing stonework; replacing deteriorated marble and balusters; replacing benches, railings, drinking fountains, trash receptacles, signage and flagstone paving. The Memorial Amphitheater Restoration Project now provides a fitting place for ceremonies where public honor and recognition are accorded national heros.

*Facility Maintenance Complex.*—A new facility maintenance complex was constructed to replace buildings constructed in the 1930's. The facility maintenance complex consists of work and storage areas for three divisions (Facility Mainte-

nance, Horticulture, and Field Operations), in three separate buildings. There is another building for warehouse operations and a building for the administrative functions associated with all of these operations.

*McClellan Gate.*—The work associated with restoration of the McClellan Gate has been recently completed. Work included removal and resetting of stone including some stone replacement, structural repairs, repointing, patching and cleaning of the entire arch, a new concrete ring foundation, new copper roofing and flashing, repair and painting of the iron gate, and new granite cobblestone paving around the arch.

CLAIMS AND SETTLEMENTS

The status and disposition of claims associated with projects and contracts at Arlington National Cemetery is summarized in the following paragraphs.

In our letter of December 5, 1996, we informed the Subcommittee of our plan to make final payment to the construction contractor on the Facility Maintenance Complex under the terms of a settlement agreement reached with the contractor and final payment to the contractor was made on January 14, 1997.

Last year, we reported that a claim for differing site conditions, submitted by the construction contractor for the demolition of the old temporary Visitors Center and development of that land (Sections 54 and 55) into gravesites, was formally denied. The contractor appealed the decision to the U.S. Court of Federal Claims on December 19, 1996.

Two claims from a previous grounds maintenance contractor have been received. Settlement of a claim related to a defective contract option in a previous grounds maintenance contract was reached in the amount of $98,000. A claim alleging defective specifications in an interim grounds maintenance contract is expected to be litigated in June or July 1997.

MASTER PLAN

The new Master Plan, which currently is undergoing review within the Army Secretariat, will identify projects and policies to respond to the challenges confronting Arlington National Cemetery. These challenges include an aging infrastructure, declining availability of space for initial interment, and the need to preserve the dignity of the cemetery while accommodating substantial public visitation. The future projects envisioned in the Master Plan will not begin to be implemented until we are into the next century. Projects and policies must be measured against funding to be made available in the budget and appropriations processes. Detailed planning and engineering studies necessary to establish the cost, feasibility, and responsiveness of individual capital projects to the Master Plan challenges would be programmed and proposed to Congress, after review and consideration by the Administration, at the appropriate times.

ARMY—INTERIOR LAND TRANSFERS

Public Law 104–201, the National Defense Authorization Act for Fiscal Year 1997 ("1997 Authorization Act"), which was enacted on September 23, 1996, includes two land transfer provisions in Section 2821 relating to Arlington National Cemetery.

*Section 29 Land Transfer.*—The first part of Section 2821 of the 1997 Authorization Act instructs the Secretary of the Interior to transfer to the Secretary of the Army certain lands found in Section 29 of Arlington National Cemetery. The land found in Section 29 is currently divided into two zones: the 12 acre Arlington National Cemetery Interment Zone and 12.5 acre Robert E. Lee Memorial Preservation Zone. The transfer encompasses the Arlington National Cemetery Interment Zone and the portions of the Robert E. Lee Memorial Preservation Zone that do not have historical significance and are not needed for the maintenance of nearby lands and facilities.

The Secretary of the Interior is to base his or her determination of which portion of the Preservation Zone will be transferred primarily on a cultural resources study that will consider whether archeological resources are likely to be located on the land, whether portions of the property are eligible for inclusion in the National Register of Historic Places, and whether property has forest cover that contributes to the setting of the Preservation Zone. The cost of the study, estimated at $85,000, will be split evenly between the Department of Interior and Department of the Army. In addition, the Secretary of the Interior will provide the Committee on Armed Services of the Senate and the Committee on National Security of the House of Representatives with environmental and cultural resource information and analysis.

The transfer, which is to be carried out under the Interagency Agreement Between the Department of the Interior, the National Park Service, and the Depart-

ment of the Army, dated February 22, 1995, is to occur not sooner than 60 days after the Secretary of the Interior has submitted the information and analysis to the Committees. The Secretary of the Interior must provide the information and analysis to the Committees no later than October 31, 1997.

*Visitors Center/Old Administration Building.*—The second part of Section 2821 of the 1997 Authorization Act instructs the Secretary of the Interior to transfer to the Secretary of the Army 2.43 acres of land and the Visitors Center, which is constructed on the land. In return, the Secretary of the Army will transfer to the Secretary of the Interior .17 acres of land and the Old Administration Building, which is constructed on the site. Section 2821 provides the authority by which this agreed-upon exchange of lands may take place.

CONCLUSION

The funds included in the fiscal year 1998 budget are necessary to permit the Department of the Army to continue the high standards of maintenance Arlington National Cemetery deserves. I urge the Subcommittee to approve this request.

Mr. Chairman, this concludes my remarks. We will be pleased to respond to questions from the Subcommittee.

## SELECTIVE SERVICE SYSTEM

**STATEMENT OF GIL CORONADO, DIRECTOR**

Senator BOND. Mr. Coronado, we know you had some conflicts in your schedule today, we congratulate you on your sense of timing. It reminds me of the trapeze artist who lets go without seeing the other bar and it arrives right on time. That demonstrates excellent planning, and we are delighted to welcome you today.

Mr. CORONADO. Thank you, Mr. Chairman.

Senator BOND. Please proceed.

### OPENING REMARKS

Mr. CORONADO. Mr. Chairman, I am delighted to appear before you and the other distinguished members of this subcommittee. I have a written statement that I would like to submit for the record.

Senator BOND. We will accept the statement in full, it will go into the record, and we would invite you to summarize what you think are the most important parts.

Mr. CORONADO. Yes, sir; we are grateful to the subcommittee and the Congress for continuing to provide us with the funds necessary to carry out our mission. As you know, in November 1994 the Department of Defense revised its mobilization timetables and we are now in the process of adjusting to that. At the same time, we are moving forward with modernization of our data processing capabilities and we are trying to enhance service in every area.

### SERVICE TO AMERICA INITIATIVE

As you consider our fiscal year 1998 appropriation, I know that to function in an era of Government downsizing, the Selective Service System cannot merely dwell on its proud past, nor depend exclusively on the threat of future crisis. This agency must demonstrate that America benefits from its work each and every day. So in the spirit of the national performance review, we are broadening our agency's direction. We have enthusiastically embarked upon a new initiative that we call Service to America, while continuing to meet our statutory responsibilities.

We have reached out in close cooperation with the Department of Defense and the Corporation for National Service. We are informing young men about service opportunities today in the Armed Forces and in our Nation's communities. With Service to America, we proudly continue our time-honored purpose in a new way.

We want to fully implement Service to America, and our fiscal year 1998 request of $23.9 million is a slight increase for the very first time in 4 years. Slightly over one-half of the increase is for the printing, mailing, processing, and staffing of the Service to America initiative, and the balance is, of course, to offset pay raise costs.

Service to America, Mr. Chairman, is a solid example of Federal agencies working together to achieve common goals and provide better, more efficient service to the public. It is also relevant to our Nation's new bipartisan emphasis on voluntarism. We have been in touch with Gen. Colin Powell as he spearheads with former President Bush the Presidents' Summit for America's Future. We have suggested ways that our agency's capabilities can be adapted to support programs and initiatives sparked by the upcoming Philadelphia summit.

The General responded recently. He was happy to receive our suggestions and his staff is now considering our proposals.

I strongly urge that you fund this innovative, modest adjustment to our acknowledgment program, a program that was born from an original concept in 1993, suggested by Senator Mikulski. With your support and this 4-percent increase in our agency's budget, we can move forward with an endeavor that has great benefits for America and coincides with our Nation's new bipartisan emphasis on voluntarism.

Mr. Chairman, members of this committee, I am proud of what Selective Service does for America. I hope you share in this pride as I answer your questions about our fiscal year 1998 budget request.

Thank you.

[The statement follows:]

PREPARED STATEMENT OF GIL CORONADO

I am delighted to appear before you and the other distinguished members of this Subcommittee, and to update you on the good things happening at the Selective Service System (SSS).

The President's Budget requests this Agency be funded at a level of $23.9 million in fiscal year 1998. This amount represents a slight increase in Selective Service funding for the first time in four years. Why the increase? In part, it is related directly to the Administration's support of our new "Service to America" initiative, an endeavor I hope the members of this Subcommittee will support.

SELECTIVE SERVICE SYSTEM FISCAL HISTORY

[In millions of dollars]

| Fiscal year | Obligations/year | |
|---|---|---|
| | 1982 dollars | Actual dollars |
| 1982 | 19.6 | 19.6 |
| 1983 | 22.0 | 22.8 |
| 1984 | 23.0 | 24.8 |
| 1985 | 24.5 | 27.4 |
| 1986 | 22.7 | 26.0 |
| 1987 | 22.2 | 26.1 |
| 1988 | 21.0 | 25.4 |
| 1989 | 20.9 | 26.2 |
| 1990 | 19.6 | 25.6 |
| 1991 | 19.5 | 26.6 |
| 1992 | 19.3 | 27.4 |
| 1993 | 19.4 | 28.5 |
| 1994 | 16.6 | 24.8 |
| 1995 | 14.9 | 22.8 |
| 1996 | 14.4 | 22.9 |

SELECTIVE SERVICE SYSTEM FISCAL HISTORY—Continued

[In millions of dollars]

| Fiscal year | Obligations/year | |
|---|---|---|
| | 1982 dollars | Actual dollars |
| Estimated: | | |
| 1997 | 13.7 | 22.9 |
| 1998 | 13.9 | 23.9 |

In the past year, more than a million-and-a-half men followed the example of young Jerry Lewis, Jr., of Rankin, Texas. In February 1996, Jerry was the 35 millionth man to register with Selective Service since the requirement was reinstated in 1980. As America's young men comply with the law, they demonstrate to the men and women who serve in the all-volunteer military that the U.S. population stands behind them, committed to serve, should the preservation of our national security so require.

AGENCY CONTINUES TO BE EXAMINED

Much Congressional and media interest has focused on the SSS since the early 1990's because of: (1) the end of the Cold War; (2) Department of Defense (DOD) analyses that addressed many intangible elements associated with maintaining a standby system of conscription; (3) the Administration's reviews and policy decisions by the President; and, (4) a 1994 change in DOD's forecast for manpower requirements. DOD now anticipates that the first draftees will be needed six months after a crisis begins. In light of this, the SSS adjusted its programs and streamlined its staffing. The resulting changes enable SSS to work better and more efficiently, and conform with Administration guidelines promulgated by the National Performance Review. Simultaneously, the SSS has had several examinations of its mission and structure. Currently (since January 1997), the General Accounting Office (GAO) is studying possible alternative methods of registration at the request of three Members of Congress who believe that personal registration is no longer necessary. GAO's review will summarize the merits of the current program and present the pros and cons of alternatives.

IMPACT OF NEW INDUCTION TIMETABLES

In February 1995, the President forwarded to Congress the Administration's position emphasizing the need to maintain the SSS and peacetime registration. It also reaffirmed the Department of Defense's position to keep the SSS in its present configuration. The DOD revised its mobilization timetables to reflect post-Cold War scenarios, with first inductees now required 193 days after mobilization for a national emergency. We had anticipated the new timetables, and began right-sizing a few years ago. We reduced several programs and streamlined the organization. On the other hand, the shift to new mobilization timetables for inductees increased our operational workload by adding new planning and training requirements. To conduct a more deliberate build-up to a draft during a future national emergency, extensive new plans are being developed and training on them must be accomplished. Additionally, we must revise our procedures, regulations, and documentation to reflect a new, graduated or "time-phased response" to deliver preexamined draftees for induction 193 days after Mobilization Day. This work is progressing smoothly.

PLANNING AND PERFORMANCE MEASURES

Working closely with the Office of Management and Budget and following National Performance Review mandates, the SSS has tailored its goals and objectives to produce result-oriented performance measures and improve service to America. This is described in our six-year draft Strategic Plan.

For example, we continue in our commitment to reinvent the SSS to improve operations, enhance customer service, and increase efficiency. Our measures of performance effectiveness are: qualitative improvements within specific time frames, more accurate and faster turnaround of data, solid levels of personnel staffing, and total customer satisfaction. Each of these issues is also outlined in our draft fiscal year 1997–2002 Strategic Plan, which represents our road map to the 21st Century. Part of the Agency's strategy is to form partnerships with other Federal government agencies, to work together to achieve common goals and provide better, more effi-

cient service to the public. Selective Service provides essential administrative support services, such as computer matching and automation, especially where there is a requirement to have access to a data base of more than 36 million young men. Currently we provide automation services to the Department of Defense, the Department of Health and Human Services, the Census Bureau, the Department of Justice, and the Corporation for National Service. Similarly, at SSS, we obtain some administrative services from other agencies. As an example, we out source for accounting, employee assistance, health, payroll and personnel support programs as a means to enhance internal productivity and limit costs.

In sum, we are committed to reshaping SSS to meet the demands of the 21st Century. We are actively embracing other creative alternatives to accomplish our statutory missions, and we continue to investigate new and better ways to do business.

REGISTRATION IMPROVEMENT

Since public awareness of the requirement that men register influences registration, and because a high rate of compliance fosters fairness and equity in any future draft, the SSS has initiated several programs:

—Radio and television public service announcements (PSA's) in English and Spanish were developed and distributed to stations nationally. These high-quality PSA's have received laudatory comments from viewers around the country.

—Many governors and local officials issued proclamations supporting SSS registration. Eighteen states have laws which parallel Federal laws and require men to register with SSS as a prerequisite for receiving state loans, educational assistance, or employment. Several other states have similar legislation pending.

HEALTH CARE PERSONNEL DELIVERY SYSTEM (HCPDS)

HCPDS is the Agency's standby system to conscript health care personnel during a national emergency. The plans and procedures for the registration and classification of health care personnel are complete and have been placed on the shelf as Congress directed. Conscription of health care personnel can be implemented, should the Congress authorize, and the President so direct. In 1994, the Department of Defense extended the time-line for delivery of health care personnel by six months. Development of plans to comply with this extension will be complete this fiscal year.

AUTOMATED DATA PROCESSING (ADP) INITIATIVES

Increasing demands for speedy services dictate the need to improve productivity through advanced ADP technologies. A number of initiatives were started last year and are making a difference in fiscal year 1997. A new I–CASE Tools software package, which automates computer program development, is aiding us in our business process improvement work. Also, we are making good use of enhanced scanning equipment and an Intelligent Character Recognition System, which have enabled the Agency to file registration data faster and without loss of accuracy. In addition to improving business processes and registration compliance statistics, the Agency is moving to a more modern computer technology, new reengineering projects, and revised methods of registrations. For example, SSS will be looking at shifting from mainframe technology to small computer technology to reduce operating and maintenance costs. After an internal cost-benefit analysis, we will validate findings with the General Service Administration, and work with a contractor to implement the necessary changes.

SERVICE TO AMERICA INITIATIVE

While continuing to meet our statutory responsibilities, and with strong Administration support, we have enthusiastically embarked on a new initiative which we call "Service to America." President Clinton recently acknowledged it as "a noble and worthwhile effort sure to increase civic mindedness and opportunities in our country." The idea is simple. With your support, the SSS registration process will serve dual functions in American society. In our routine communication with all new registrants in America, we encourage them to serve America today. In close cooperation with the Department of Defense and the Corporation for National Service, we are informing young men about opportunities today in the U.S. Armed Forces and about community service through the Corporation for National Service. On the acknowledgment card they receive from us in the mail, we encourage them to explore options for voluntary service to the Nation.

This ancillary service is meaningful, appropriate, reinvigorating and exciting. With "Service to America," this Agency proudly continues to fulfill its time-honored

purpose in a creative way. We historically focused the attention of America's young men on meeting national wartime needs, and now we also remind them to volunteer for other civic opportunities in peacetime. Thus, the Selective Service System is and will remain ready for tomorrow's national emergency, as it serves America's needs today.

We want to implement fully the "Service to America" initiative. Our fiscal year 1998 budget submission requests $23.9 million. This is a slight increase for the first time since fiscal year 1993. About half of this $1 million increase would fund five additional full-time equivalents and offset the increased costs of printing, mailing, and processing a larger acknowledgment card. It would also allow a portion of the new card to be a detachable mail-back postcard. On it, new registrants would indicate their interest in military or community service. In turn, we would process the returning information into timely, accurate, high quality recruiter leads for the U.S. Armed Forces and the Corporation for National Service. The balance of the funding increase would offset 1998 pay raise costs.

The "Service to America" initiative is another good example of interagency cooperation that benefits the public. It is also relevant to our Nation's new bipartisan emphasis on volunteerism. We have been in touch with General Colin Powell as he spearheads, with former President Bush, the President's Summit for America's Future." We suggested ways that this Agency's capabilities can be adapted to support programs and initiatives sparked by the upcoming Philadelphia Summit. The General responded recently. He was happy to receive our suggestions and his staff is now considering our proposals.

The four percent budget increase for Selective Service, requested by the President for fiscal year 1998, demonstrates the Administration is in agreement with the "Service to America" initiative. I strongly urge that you fund this innovative and modest adjustment to our acknowledgment program. With your support, we can move forward with this endeavor that has great benefits for America, and parallels our Nation's new, bipartisan emphasis on volunteerism.

Mr. Chairman and members of the Subcommittee, I am proud of what Selective Service does for America. I hope you share in this pride.

## ABMC INFRASTRUCTURE

Senator BOND. Thank you very much, Mr. Coronado.

Let me start with General Herrling. What do you estimate the future infrastructure needs and costs to be for the AMBC?

General HERRLING. Sir, today I estimate our infrastructure costs as far as repair and maintenance and the backlog thereof to be in the area of about $10 million. If we do not receive some help to try to defray some of that cost, I can only see that growing in future years.

Senator BOND. So this is a one-time cost, or what is the annual cost? Are we talking about a one-time cost?

General HERRLING. Sir, it would average somewhere around $2.0 million a year for construction, repair and maintenance. We have tried to make inroads into the backlog. In fact, in fiscal year 1993 and 1994 Senator Mikulski added $1 million and $250,000 to our budget and we were able to make serious inroads into that backlog.

Now, over the last 4 or 5 years it has built up again.

Senator BOND. I know that one of the problems we face in dealing with overseas responsibilities is the fluctuation in foreign currency. What is the best approach for meeting the foreign currency market fluctuations? What are you doing to deal with that?

General HERRLING. Sir, in this, the fiscal year 1998 appropriation, we have asked for $2.1 million to cover foreign currency fluctuation costs. That seems consistent with the past. The 1 year that it was not provided for in the budget, in 1996, we got into a deficit position, and were short $700,000. So I had to go into my operational account to make up the difference for the foreign currency fluctuation.

We have used our best judgment on what current fluctuation needs will be for both this year and in 1998.

RESPONSIBILITIES

Senator BOND. Thank you, sir.

Turning to Mr. Dola, what are your primary responsibilities with regard to the Arlington National Cemetery and the Soldiers' and Airmen's Home National Cemetery?

Mr. DOLA. As Secretary Lancaster's Deputy, my primary responsibilities with regard to Arlington and Soldiers' and Airmen's Home National Cemeteries are program formulation and budget oversight. The budget request is to operate and maintain both of those cemeteries, the entire works: scheduling, orchestrating and supporting, the funerals there, operating and maintaining the grounds, and providing for infrastructure needs that may occur, such as the Columbarium, the restoration of the Memorial Amphitheater, and other projects that are coming down the road.

Senator BOND. The Columbarium. What are the other infrastructure needs with respect to those? What kind of funding do you expect to be requiring in the future?

Mr. DOLA. As you know from our budget, Mr. Chairman, we are asking for $2.4 million for construction, and in the next 5 years we would be expecting on the order of $2.5 million per year. The larger issue will occur after that period, where we would anticipate that the construction needs could perhaps double that amount on an annual basis to take care of things that we see in our master plan down the road.

COSTS OF SERVICE TO AMERICA INITIATIVE

Senator BOND. Mr. Coronado, what costs are you envisioning in the Selective Service on the Service to America initiative?

Mr. CORONADO. For Service to America, Mr. Chairman, it is $506,000.

FUTURE OF SELECTIVE SERVICE

Senator BOND. There are questions being addressed by the GAO on the need to maintain the Selective Service in view of the success of the Volunteer Army. What do you see as the future of Selective Service, and if you had to forecast the outcome of this review what would you forecast? What do you think it should be?

Mr. CORONADO. It is my understanding that the GAO is at our agency, according to them, at the request of three Members of Congress to look at alternative methods of registration. So I do not believe the future of this agency is in jeopardy. I believe that this has been discussed and rediscussed by the Congress, studied by the National Security Council, the Department of Defense, and the administration. The majority of the people involved in these studies and discussions have decided SSS must remain ready and voted for maintaining a strong third tier of our Nation's defense. I am optimistic about the future of this agency inasmuch as it represents something very important to all of us.

Senator BOND. Thank you very much, Mr. Coronado.

Let me turn to Senator Mikulski for her questions.

Senator MIKULSKI. Thank you.

Gentlemen, each one of you plays a very important role, one in registering young people should we need to mobilize; and then after service a way to pay tribute to that. General Herrling—I am going to have a question for each one. First of all, we have been very blessed that the head of the American Battle Monuments Commission has always been a very distinguished American, and we thank you for taking on that responsibility.

ABMC INFRASTRUCTURE AND BACKLOG

I just want to follow upon what Senator Bond raised, which is I am very concerned about the backlog in terms of maintenance, and I think we would welcome either a plan or kind of a work-through schedule. I do not want to call it a workout, but a work-through schedule, where in an organized and systematic way, dealing with those that are most at risk, then through, and how we could bring ourselves up to date so that we actually are not only funding current operating expenses, but essentially really having an organized, systematic way of working this down.

Do you think that is a possibility, to be able to give that to us?

General HERRLING. Yes; I do, Senator. In fact, I am prepared to provide for the record a priority list of our maintenance, which includes some 550 projects at this point. As I mentioned earlier, it totals about $10 million.

Now, through this fiscal year and hopefully if funded at the requested level for 1998, I will be able to work that backlog down somewhere in the range of $6 million. We will use our priority list, which includes some 550 projects, and start working down it. As you know, each year other projects are added to it.

But I think with a modest increase each year, over maybe the next 5 years, I could whittle that down to something that is very manageable.

Senator MIKULSKI. Well, this Senator is certainly not going to suggest a management plan to a U.S. Army General. But we might want to go to those that are most severely distressed, like a barbell approach, and then those that are beginning to be telltale, frayed and tattered, so that by beginning to intervene now they are not on that cascading slope. Some of those expenditures are quite low.

So we look forward to working with you on this, and thank you.

A question then for Mr. Coronado. You spoke about the Service to America and what I had asked. Do you want to just very quickly say what that is?

Mr. CORONADO. Absolutely. Senator, I want to thank you personally for having brought this up in 1993. The opportunities to interface with other agencies. How can we do something to better serve the American public? Very basically, we are in contact with 1.9 million young men each year. What we have done is to redesign the registration acknowledgment card and are asking men to serve America today as volunteers, either through the Armed Forces—or through AmeriCorps—and the card shows 1–800 numbers—for DOD and AmeriCorps. We are promoting Service to America in close cooperation with these agencies, who have voiced a very, very strong and very positive reception to this adjunct effort. We com-

municate this simple message to America's youth, at no additional cost, Mr. Chairman.

However, for fiscal year 1998, we are asking for a slight increase in funding to redesign the whole process.

Senator MIKULSKI. So what you are saying is that Selective Service does three things: one, it registers young men for the draft should they need to be mobilized; but simultaneously, you alert them to two opportunities for service now. One, if they are ready to sign up for the U.S. military, here is the number to call and go for it. The other is if you choose to begin to manifest a patriotic feeling, you can also do it in your local community by being a scout leader or big brother, and then that is the other 800 number that you call.

But it is a way of reaching out to young men to say, we do have an obligation, but you also have a great opportunity for immediate service, either in the military or by being a good citizen in your neighborhood.

Is that what we are talking about?

Mr. CORONADO. That is exactly correct, Senator Mikulski. In my travels throughout the country, we find that there is a lack of communication with our young people. This is one effort to get them to think about service to America, either in the military or in their local communities.

RESULTS OF SERVICE TO AMERICA INITIATIVE

Senator MIKULSKI. I know my time has expired, but can you tell, have there been any concrete results that you can talk about that, because of this methodology, *x* number of young men have said military, *x* number have said local volunteerism?

Mr. CORONADO. This new methodology was implemented 2 days ago, so we have no direct results yet. And, it is doubtful that with a 1–800 number we would really be able to measure it. It is our hope, it is our desire, that we will get the additional funds for fiscal year 1998, and then we could include the business reply card that would come back to us. It would give us an accurate listing of the men who volunteered for the military versus the ones who want to serve in the local community. At a later date we would be very, very happy to share that with you.

Senator MIKULSKI. OK.

Well, Mr. Chairman, I know my time has expired. I want to thank Mr. Dola. Four million people visit Arlington. Four million people come to Arlington to, of course, visit the Kennedy grave and pay our respects to America's heros. I think that is an extraordinary, just an extraordinary number of visitors. We do not want to call it tourism. They are not coming to tour. They are coming to express a feeling, and that is an exceptional feeling.

We look forward to running this place because, in addition to providing proper interment and burial services, you have this other management responsibility which I think is significant. You probably are visited—and please do not confuse my vocabulary in any way with demeaning the special nature, but you are visited more than a national park, many of the national parks.

I would just hope that we really provide some type of understanding of the support that you need, so that you do that and at

the same time meet the mission, the very honorable and sacred mission for which you were established.

Mr. DOLA. Senator Mikulski, we appreciate the understanding of this subcommittee for the sacred trust that we try so very hard to discharge in a way the subcommittee and Congress and the American people will be proud of. We thank you for the support that we have had in the past and hope that we will merit it in the future.

Senator MIKULSKI. Thank you, Mr. Chairman.

Senator BOND. Thank you very much, Senator Mikulski.

We are very pleased to be joined by the chairman of the full committee, Senator Stevens.

STATEMENT OF TED STEVENS

Senator STEVENS. Thank you. I just dropped by to say hello, to see what was occurring in terms of this area of your jurisdiction, Mr. Chairman.

ABMC INFORMATIONAL SERVICES

I am concerned about the Battle Monuments Commission activities. What kind of really informational services do you have to let people know where these monuments and memorials and cemeteries are overseas?

General HERRLING. Senator Stevens, we have quite an extensive program to keep next of kin, friends, and interested people informed on just those subjects. Anybody can call or write to our office and we will provide them with a letter that gives them information concerning their request. We will also provide them with general information pamphlets on the cemetery. We will tell them how to get there from an airport or railroad station. We will have the superintendent, in some cases, go to the railroad station or airport to pick up and bring the next-of-kin to the cemetery.

So we provide all that information through correspondence daily. We receive probably hundreds of letters every week on just that sort of request.

ABMC MEMORIAL DAY AND OTHER CEREMONIES

Senator STEVENS. And what do you do to organize the various ceremonies on our national days, like Memorial Day or Veterans Day, over there?

General HERRLING. Sir, each one of our cemeteries has a ceremony on Memorial Day and also on Veterans' Day. It will usually involve the U.S. Ambassador to that country as well as distinguished military and civilians who live and work in that country. They are formal ceremonies. The military, who are still stationed throughout Europe, will provide the color guards, firing squads, the buglers, to make it truly a remembrance type of a ceremony.

I believe we do this very well and we pretty much mirror what is done here in the States for those national holidays.

Senator STEVENS. Many of us travel abroad about that time. I remember I was asked to speak in The Netherlands at Margraten.

General HERRLING. Margraten.

Senator STEVENS. But I do not remember ever—I have been here quite a while, but I do not remember ever anyone sending me a no-

tice of where there would be events. I want to ask that you undertake the task of sending, at least to the chairman of the committees of both the House and the Senate, notice of what type of ceremony is going to take place at the monuments and memorials under your jurisdiction during the year. I think we ought to have a little more attention to paying our respects at those areas when we do go overseas.

I am not asking you for it any more than just once a year, to say these are the events that will take place and to offer opportunity to our people to visit these sites. I find them very rewarding when I visit them, but I do not know how many people do that.

Would you do that for us?

General HERRLING. Senator, we would be delighted. We would be delighted to provide that information to members of Congress.

Senator STEVENS. Good. Thank you very much. I appreciate it.

Senator BOND. Thank you very much, Senator Stevens.

Thank you, gentlemen, for joining us today. We will keep the record open for questions that other members of the committee may have. We do appreciate the opportunity to work with you. Our staff will be in contact with you on any further questions that may arise and we urge you, as always, to feel free to contact the staff. John Kamarck is our new head of the staff for this committee and I hope that you will feel free to call on him and other members of the staff if you have additional views or comments that may be necessary.

SUBCOMMITTEE RECESS

Thank you, and the hearing is recessed.

[Whereupon, at 11:15 a.m., Tuesday, March 4, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

# DEPARTMENTS OF VETERANS AFFAIRS AND HOUSING AND URBAN DEVELOPMENT AND INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1998

---

**TUESDAY, MARCH 11, 1997**

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, DC.*

The subcommittee met at 9:38 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Christopher S. Bond (chairman) presiding.

Present: Senators Bond and Mikulski.

## CONSUMER PRODUCT SAFETY COMMISSION

**STATEMENT OF ANN BROWN, CHAIRMAN**

**ACCOMPANIED BY:**

**MARY SHEILA GALL, COMMISSIONER**

**THOMAS H. MOORE, VICE CHAIRMAN**

### OPENING STATEMENT OF CHRISTOPHER S. BOND

Senator BOND. The subcommittee will come to order.

This morning we are very pleased to be able to take testimony from three agencies with responsibilities to the American consumer, including protecting citizens from injury and death associated with consumer products and providing them with important information on subjects as diverse as preparing a will and eating healthfully.

The Consumer Product Safety Commission, represented by Chairman Ann Brown, is requesting an appropriation of $45 million, an increase of $2.5 million over the current year. The Consumer Information Center, represented by Director Teresa Nasif, is requesting $2.1 million. And the Office of Consumer Affairs, represented by Director Leslie Byrne, is requesting $1.8 million.

For the most part, these budget requests would fund current services without major enhancements in agency operations. However, even funding marginal increases necessary for normal inflationary adjustments will be tough in the budgetary environment in which we are operating.

If you have had representatives at previous hearings, you will know that this committee is blessed with some very difficult prob-

lems, particularly with respect to the costs of HUD and the section 8 contracts.

Moreover, it will come as no surprise to some of you that I continue to have very strong concerns about the redundant role of the Office of Consumer Affairs and question why the office should be continued. We tried, unsuccessfully, to fulfill the President's commitment to streamlining Government activities and reducing duplication in the last two appropriations cycles by eliminating the Office of Consumer Affairs. And, while I received no calls or letters from constituents or consumer groups in opposition, the administration insisted on funding the organization in fiscal years 1995 and 1996. This was disappointing to me.

In my view, OCA's role has become obsolete as most Federal agencies have consumer affairs officers or individuals responsible for consumer issues.

In addition, I have been concerned that in attempting to create a role for itself in the last 2 years, OCA has succeeded in creating yet another duplicative activity through the consumer HelpLine.

OCA was without a director for several years. Ms. Byrne, you are the newly installed director and you will be given the opportunity to defend your agency. I have worked with you in the past and have great respect for your abilities. It is the agency, not the people, that I am concerned about. I will require a lot of convincing.

Now let me turn to my ranking member, Senator Mikulski.

Good morning, Senator.

STATEMENT OF BARBARA A. MIKULSKI

Senator MIKULSKI. Thank you, Mr. Chairman and good morning to you and to all members of the panel.

Each and every one of you have worked closely with me in a variety of capacities, of course, with both Ms. Brown and Ms. Nasif in the committee and with Ms. Byrne when she was a Congresswoman, a cousin from the other side of the Potomac who knows about the bridges.

PREPARED STATEMENT

Mr. Chairman, in the interest of moving ahead and hearing the witnesses, I ask unanimous consent that my statement be placed in the record and I look forward to hearing the testimony and their answers to our questions.

Senator BOND. Without objection. Thank you.

[The statement follows:]

PREPARED STATEMENT OF SENATOR BARBARA MIKULSKI

Thank you, Mr. Chairman. I know that we have a lot to go through this morning so I will be brief.

We will be hearing testimony from six of the independent agencies within the jurisdiction of the VA-HUD Subcommittee: The American Battle Monuments Commission, Cemeterial Expenses of the Army, the Consumer Information Center, the Consumer Product Safety Commission, the Office of Consumer Affairs, and the U.S. Court of Veterans Appeals.

Collectively, these agencies are requesting $92,091,000 for fiscal year 1996 which is an increase of $3.7 million or 4.2 percent above the fiscal year 1995 enacted level. The fiscal year 1996 budget request for these agencies represents a mere fraction of the $91.2 billion in total funding requested by the President for all agencies within this Subcommittee's jurisdiction. The relative size of their budget requests, how-

ever, should in no way diminish the importance of the services that these agencies perform.

The witnesses before us are responsible for commemorating the achievements and sacrifices of United States Armed Forces, operating and maintaining that sacred area that is Arlington Cemetery, protecting and informing America's consumers, and helping to ensure that veterans' benefit claims are appropriately and adequately reviewed. This is important work, Mr. Chairman.

My time here this morning is limited, so I will not be able to hear all of the witnesses. Let me welcome all of you before the Subcommittee as we begin our review of the President's fiscal year 1996 budget request. Let me also echo what Senator Bond has said regarding our budgetary situation. A freeze at current levels is probably the best this Subcommittee can hope for.

One final thought before we turn to the witnesses. You know, Mr. Chairman, the new majority in Congress seems determined to visit some version of regulatory reform upon the American people. You are directly involved in this effort as the co-Chairman of the regulatory Reform Task Force appointed by the Majority Leader here in the Senate.

I hope that you and many of our colleagues will pay close attention to the leadership that Ann Brown has brought to the Consumer Product Safety Commission. As Chairman of the CPSC, Ann Brown has streamlined and revitalized what had become a dormant agency under previous administrations. She has made consumer protection more effective—not by making the Federal government more invasive—but instead, working cooperatively with consumers and businesses to minimize the risk of death and injury from consumer products. Under Ann Brown's leadership, the CPSC seeks voluntary compliance if it is at all possible and takes mandatory action only when necessary.

As we consider the issue of regulatory reform here in the Congress, Mr. Chairman, we should be looking to the CPSC to see just how the Federal government can be made more effective at protecting our citizens by ensuring that they are better informed and encouraging businesses to pay more attention to safety in their products.

Thank you, Mr. Chairman. And now, let's here from the witnesses.

STATEMENT OF ANN BROWN

Senator BOND. Now we will turn to the chairman, Ann Brown.

Ms. BROWN. Thank you. Mr. Chairman and members of the subcommittee, I am Ann Brown, Chairman of the Consumer Product Safety Commission, known as CPSC.

With me today are Commissioner Mary Sheila Gall and Vice Chairman Thomas H. Moore and members of the commission staff.

I am pleased to have this opportunity to testify in support of our fiscal year 1998 appropriation request.

For the information of any new members, I want to explain very briefly who we are and what we do. The Commission was established in 1973 by Congress as a five, now a three member independent agency with the mission to protect the public against unreasonable risks, injury and death from consumer products.

We enforce five Federal statues—the Consumer Product Safety Act, the Flammable Fabrics Act, the Poison Prevention Packaging Act, the Hazardous Substances Act, and the Refrigerator Safety Act. All told, we have jurisdiction over 15,000 different kinds of consumer products which are found in and around the home.

These products are involved in more than 21,000 deaths and over 29 million injuries with a total cost in excess of $200 billion annually to the Nation.

At the outset, I want to express our appreciation for our fiscal year 1997 appropriation of $42.5 million, the full amount requested in the President's budget. These funds are being used effectively to protect the American people against unreasonable risk of injury or death from dangerous or defective consumer products.

I am especially proud of our Baby Safety Shower Program and I want to show a very short tape about it.

[A videotape was shown.]

Senator MIKULSKI. Ms. Brown, how long is this tape?

Ms. BROWN. It goes on for 1 more minute.

Senator MIKULSKI. This is a busy day and we do have three witnesses.

Senator BOND. That's all right. It came out of her time. [Laughter.]

Ms. BROWN. Then please let me continue.

In fiscal year 1998, we are requesting an appropriation increase to $45 million, an increase of $2.5 million to continue and expand our vital work. In preparing our budget, we carefully reviewed the needs and contributions of all our three operating divisions.

As a result, we are proposing important investments above current service levels in most of these areas. These investments total $1.1 million. They include funding of a larger number of product incident investigations, support for hazard reduction initiatives, including a major effort on fire hazards, an innovative compliance investigation program, and certain information technology efforts critical to efficient agency operations.

These modest programs requested for 1998 are more than justified by our record of accomplishment.

PREPARED STATEMENTS

CPSC has made vital contributions to the 20-percent decline in annual deaths and injuries. Past agency work in electrocutions, children's poisonings, children's cribs, power mowers, and fire safety helps save the Nation almost $7 billion annually in health care, property damage, and other societal costs—more than 100 times CPSC's annual budget, or about $155 million in savings for each $1 million of the agency's 1998 request.

[The statements follow:]

PREPARED STATEMENT OF ANN BROWN

Mr. Chairman, and members of the Subcommittee, I am Ann Brown, Chairman of the Consumer Product Safety Commission (CPSC). With me today are Commissioner Mary Sheila Gall, Vice Chairman Thomas H. Moore and members of the Commission staff.

I am pleased to have this opportunity to testify in support of our fiscal year 1998 appropriation request.

For the information of the new members of the Subcommittee, I want to explain briefly who we are and what we do. The Commission was established in 1973, by Congress as a five, now three, member independent agency with a mission to protect the public against unreasonable risk of injury or death from consumer products. We enforce five federal statutes, the Consumer Product Safety Act, the Flammable Fabrics Act, the Poison Prevention Packaging Act, the Hazardous Substances Act and the Refrigerator Safety Act. All told, we have jurisdiction over 15,000 different kinds of consumer products which are found in and around the home. These products are involved in more than 21,000 deaths, and over 29 million injuries with a total cost in excess of $200 billion annually to the nation.

RECENT ACCOMPLISHMENTS

At the outset, I want to express our appreciation for our fiscal year 1997 appropriation of $42.5 million, the full amount requested in the President's budget. These funds are being used effectively to protect the American people against unreasonable risk of injury or death from dangerous or defective consumer products.

I want to tell you just a few of the ways in which we have used the taxpayers' hard earned dollars to safeguard their health and safety.

—In fiscal year 1997 we have negotiated 106 voluntary corrective actions involving 17.2 million consumer product units that violated mandatory safety standards or presented a substantial risk of injury to the public.

—Also in fiscal year 1997, in partnership with the Customs Service, we stopped 2.8 million dangerous product units from reaching store shelves.

—We recently issued a rule to alleviate the tip-over hazard of large, multiple tube fireworks. Spectators have been killed when these devices fell over and fired horizontally. The new rule becomes effective this month, well before the fireworks season.

—In fiscal year 1996 we tested several brands of imported, non-glossy vinyl miniblinds and found they contained amounts of lead which would be harmful to young children. When we presented these results to the miniblind industry, the manufacturers voluntarily agreed to change the composition of these products to eliminate the lead.

—In cooperation with the Gerber Products Company, we continued our campaign this year to promote baby safety events across the country. To demonstrate this program I want to show you a brief excerpt from the CBS Morning News, which broadcast a segment on the kickoff of our program.

Mr. Chairman, these are just a few of the ways we have used our resources to advance consumer product safety in fiscal year 1996 and 97.

FISCAL YEAR 1998 PROGRAMS

In fiscal year 1998, we are requesting an appropriation increase to $45 million, an increase of $2.5 million, to continue and expand our vital work. In preparing our budget, we carefully reviewed the needs and contributions of our three operating divisions, hazard identification and reduction, compliance, and information and education. As a result we are proposing important investments above current service levels in most of these areas to enhance our ability to prevent and reduce the deaths and injuries related to consumer products.

These investments total $1.1 million. They include funding of a larger number of product incident investigations, support for hazard reduction initiatives (including a major effort on fire hazards), an innovative compliance investigation program, increased consumer information outreach, and certain information technology efforts critical to efficient agency operations.

In the hazard assessment and reduction area, funding would increase by $443,000, with one-third required to maintain current hazard reduction activities. The remainder of the increase, $325,000, funds critical enhancements in two areas: a partial update of the agency's child anthropometric measurements (measurements of children's physical dimensions, which are critical to analysis of their injuries); and several initiatives to address the nation's high fire death rate. Nationally, there were 470,000 residential structure fires in 1993. Fire is a leading cause of accidental home deaths among children younger than five years old.

Even though efforts by the agency and the nation's fire prevention community have resulted in a steady decline in residential fires, this nation's fire death rate remains one of the highest among industrialized nations. Past CPSC actions in this area involving, for example, cigarette-resistant mattresses and upholstered furniture, heating equipment, flame resistant children's sleepwear, and smoke detectors have contributed to the general decline in fires and fire deaths, and show that the agency can be effective in reducing fire hazards.

The fire-related hazards project continues our 1997 work on upholstered furniture, mattresses and bedding, revisions to the apparel flammability standard, and fire/gas codes and standards. New activities will be undertaken to evaluate the effectiveness of the Commission's safety standard on cigarette lighters and to address an emerging hazard, fires started by children using multi-purpose lighters. Fire investigation training for certain CPSC staff in our field offices is also recommended.

In the Compliance program, we are requesting an increase of about $600,000 to enhance the Special Investigations Unit initiative. This recently established unit serves to identify and remedy previously unidentified and/or technically complex hazards. We believe that much of the agency's future work and effectiveness will involve addressing more technically complex hazards. The requested funds begin to develop the necessary tools to address such hazards. This includes a critically important effort to link and integrate agency and non-agency databases and the application of rapid product testing and evaluation techniques. Advances in this effort will benefit safety work throughout the agency.

For fiscal year 1998, the information and education program's dollars increase by $196,000, with most of the funds necessary to maintain the current consumer information efforts in support of agency hazard reduction and compliance efforts. An increase of $22,000 will allow greater use of cost-effective video news releases to reach the public with product recall and other safety information.

We know the Subcommittee has been especially concerned about the level of management expense at the CPSC. Accordingly, I want to inform you about a change I instituted in all CPSC programs. I have made it a policy that managers must be working supervisors, sharing the substantive work with our staff. Recognizing the Subcommittee's desire to reduce administrative expenses, we have worked to do so, and have achieved a 21 percent decrease since 1989. Only 19 percent of our fiscal year 1998 budget funds administrative needs, down from 24 percent in 1989.

The modest program increases requested for fiscal year 1998 are more than justified by our record of accomplishment. CPSC has made vital contributions to the 20 percent decline in annual deaths and injuries related to consumer products that occurred between 1980 and 1993. Past agency work in electrocutions, children's poisonings, children's cribs, power mowers, and fire safety helps save the nation almost $7 billion annually in health care, property damage, and other societal costs—more than 100 times CPSC's annual budget or about $155 million in savings for each $1 million of the agency's 1998 request. The agency expects its 1993 standard to make cigarette lighters child resistant to save over $400 million in societal costs and prevent up to 100 deaths annually. Similarly, the agency expects its work in curbing carbon monoxide (CO) poisoning to reduce societal costs by one billion dollars annually. CPSC removal of dangerous fireworks from the marketplace prevents about 14,000 injuries each year.

As you know, Mr. Chairman, I stress a cooperative, non-adversarial approach to business whenever possible. My first priority is to achieve voluntary compliance with our laws and rules. For this reason, I am particularly proud of our record of working cooperatively with industry. Since I became Chairman in 1994, the CPSC has developed 27 voluntary standards with manufacturers, while issuing only 10 mandatory regulations, a ratio of almost 3–1 voluntary to mandatory standards.

I have also emphasized my belief in the product safety triangle, where business, consumers and government each have an equal role to play. The Commission should not become overly invasive. We cannot and should not attempt to protect consumers from every possible risk of injury from consumer products. There are limits to what government can achieve.

In this connection, Mr. Chairman, I want to tell you what we have done to implement your bill, S. 942 (Public Law 104–121), the Small Business Regulatory Enforcement Fairness Act.

First, on October 9, 1996, the Commission adopted a regulation establishing a CPSC Small Business Ombudsman and a Small Business Enforcement Policy. The Ombudsman, Clarence Bishop, who is also Deputy Executive Director, has answered more than 700 calls on a special toll-free hotline from small businesses seeking product safety information. Over 80 percent of the callers received a personal response to their inquiry from our staff within 3 business days. This service helps small businesses get important information quickly, and, at the same time, furthers public safety.

Second, we have scrupulously followed the Congressional review procedures set forth in the law. We have issued four rules since the Act's effective date—none of which were "major" rules. In each instance, we submitted the required reports to Congress and the General Accounting Office on a timely basis.

Third, we are near completion of a compliance guide for our February, 1997, revisions to the fireworks fuse burn time regulation, which were unanimously supported by industry and safety groups. Our Economics staff concluded in its regulatory flexibility analysis that these changes will benefit small businesses by making it easier for them to comply with the fuse burn time standard.

Finally, consistent with the purpose of your legislation, in June 1996, we co-sponsored a Small Business Conference with the International Consumer Product Health and Safety Organization. More than 130 representatives of small businesses participated in panels designed to assist them in complying with our laws and regulations.

REDUCED FUNDING LIMITS COMMISSION PROGRAMS

As you know, in a concurrent submission to this Subcommittee and the OMB in September 1996, the Commission requested a budget of $49.7 million for fiscal year 1998. The OMB reduced our budget request to $45 million. Although this reduction of $4.7 million seems small, it will have a negative impact on our efforts to protect the health and safety of American children and families.

For example, we proposed to invest $800,000 to update the Commission's 20 year old child anthropometry data. This information is essential for effectively addressing product hazards to children. Due to the rejection of this request, our effort in this area will have to be spread over several years, thereby hampering our efforts to protect one of our most vulnerable populations, children.

Earlier in my testimony I mentioned our program to reduce deaths and injuries from household fires. We requested $500,000 for this project, but due to the budget reduction, we will be able to invest only half that amount in fiscal year 1998. The continuing high cost of fires justifies a greater investment and more innovative activities. The increased funds would have provided a mix of research and action items to address the many complex aspects of the fire problem. These items could include a cost-benefit evaluation of fire suppression devices, research to refine our knowledge of the causes of fire deaths to help identify appropriate prevention strategies, and the investigation of new product-specific hazards. These efforts would have provided a broader, more inclusive attack on the nation's fire problems. Since we were denied these funds, we will not be able to protect the public as well as we could from death and injury due to fire hazards.

INVESTMENT IN INFORMATION TECHNOLOGY IS NEEDED

In the past, agency funds invested in information technology have saved many thousands of hours of staff time for the Commission, improving our effectiveness and efficiency enormously. We have used these funds to develop discrete databases, to network the agency's computer system, and to move our data systems from a mainframe computer located at another federal agency to our own local network. Unfortunately, our fiscal year 1998 budget request would barely maintain our capabilities in this area. The proposed funding level leaves no resources to implement further technological advances, and only permits minimal investment to meet the new requirements of the recent Freedom of Information Act amendments (which require that most requested material be in electronic format and available over the Internet).

An additional investment of $1,000,000 would allow us to respond faster and better to product hazards, saving more lives and preventing more injuries, and would help us implement the new FOIA law. As you know, CPSC is a data-driven agency that carries out its mission with a sense of urgency, since quick action by the agency saves lives. To provide even greater benefits to American consumers, we would like to establish an integrated information system at the agency that would give staff access to a much larger universe of product safety data and would improve the speed with which staff could gain access to that data.

This system would integrate the agency's databases, and other data and documents not included in our current databases, allowing CPSC employees to get all the information the agency has on a particular product hazard using one quick and easy information request. Currently, gathering all such information can take weeks.

Let me give you an example. Last year, CPSC's Compliance Office became aware of the suffocation death of a toddler who had been trapped in a cedar chest. To discover whether similar incidents had occurred in the past, the compliance officer searched each database in the agency individually, which took approximately two hours of staff time. Without recent improvements in information technology, she would have conducted these searches manually, which could have taken days, if not weeks.

However, our system only allowed her to search for information that was available in certain discrete databases, which includes less than 50 percent of all the information that has been developed by the agency since its establishment. If we had an integrated database, this same search could have been conducted in a matter of minutes, instead of hours, and would have represented a complete review of all information developed by the Commission, not just what is in currently available databases.

In this particular case, the compliance officer did identify additional deaths of children who had become entrapped in a cedar chest manufactured by the same company. This data enabled us to reach agreement with the company to repair 12 million cedar chests currently in the hands of consumers. However, if it had been necessary for the staff to obtain more information before action could be taken, such as staff reports on toy chest entrapments or product safety assessments conducted by staff years ago on similar products, it would have taken weeks or months to locate the information through a manual search of Commission files and archives. Meanwhile, unrepaired chests would remain with consumers, threatening the safety of millions of children.

This demonstrates that the benefits of an additional investment in CPSC information technology will far outweigh the slight increase in our appropriation.

CONCLUSION

In conclusion, Mr. Chairman, the CPSC is a great value to the American people. By every rational cost-benefit measure we save the taxpayer many times our budget in deaths, injuries and property damage prevented. Accordingly, we urge you to appropriate not only the full amount requested, we also hope you can find an additional $1 million, within the Subcommittee's budget allocation, and within the framework of the President's balanced budget for necessary enhancement of our information technology.

---

PREPARED STATEMENT OF MARY SHEILA GALL

I support the request of the Commission for $45 million for fiscal year 1998. Since my vote was against the original request to the Office of Management and Budget and Congress, I want to explain to the Subcommittee why I now support the budget request.

In July 1996 I opposed the staff-proposed fiscal year 1998 budget of $49.9 million. I did so with reluctance, since many of the proposals to increase funding lay in areas such as additional laboratory equipment and other infrastructure expenditures that I have traditionally supported. My opposition to this budget proposal stemmed mainly from the fact that it proposed to spend 17 percent more in fiscal year 1998 than the request made by the Commission for fiscal year 1997. I recognize the importance of the mission and the operations of the Commission, but that importance must be balanced by the necessity to keep planning for future expenditures closer to probable increases.

I supported certain portions of the staff-proposed budget. Current services needed to be funded and the cuts of fiscal year 1996 had to be restored. The Commission's accounting system needs modernizing and additional money for training is essential. But I did not agree that all of the proposed expenditures were as worthy as others. For example, I support increased expenditures to reduce fire deaths and injuries, but did not believe that several of the projects contained in the staff proposal represented a wise use of Commission resources. Similarly, the $40,000 proposed project to evaluate recall effectiveness struck me as less than crucial. Finally, many of the staff-proposed spending increases could be deferred to subsequent fiscal years.

I am pleased to support the Commission's budget request contained within the President's budget request. This Commission performs a valuable public service by seeking to prevent injuries and death associated with the use of consumer products. I think that this Committee should note that, while many agencies within its jurisdiction seek benefits that will accrue in the distant future, the Commission's activities prevent deaths and injuries in the near term. This observation does not mean that the activities of those agencies are unimportant, but the immediacy of the benefits that this Commission's activities confer upon the American public ought to be a factor when this Subcommittee considers the appropriation request of this Commission along with the appropriations requests made by other agencies.

The details of the Commission's fiscal year 1998 Budget Request have been set forth in the Chairman's Statement and I have nothing to add to that portion of her Statement.

## ADDITIONAL COMMITTEE QUESTIONS

Senator BOND. Thank you very much, Chairman Brown.

[The following questions were not asked at the hearing, but were submitted to the Agency for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR BOND

CPSC FTE'S

*Question*. CPSC currently has on-board approximately 455 staff; your FTE ceiling is 487 FTE, and your fiscal year 1998 request would fund 480 FTE. How much could we save if you did no hiring, and maintained staff at the current level of 455?

Answer. First, the agency is no longer at the 455 employee level. Current employment is 460 and climbing. We have announcements outstanding to bring us up to 480 employees very shortly. We are aggressively hiring new employees because our product safety work has been hurt by staff vacancies caused by 1996 budget uncer-

tainties and funding delays. Staff has been doing a tremendous job of covering for the vacant positions but productivity will soon suffer without additional staff support.

Second, CPSC is already about half the size it was in 1980, and we have worked very hard to keep productivity up despite reduced staff resources. Since our specialized and highly skilled workforce is our chief asset (comprising 75 percent of our entire budget), cutting staff time further would reduce our product safety work now and for many years to come. While an FTE cut of 5 percent to 455 would reduce salary costs by about $1 million, this savings would be more than offset by a significant erosion in our life-saving safety work. Past work by the agency shows savings to society of at least $155 million each year for every $1 million spent on the agency.

Finally, CPSC has already cut down on agency administrative support as much as we can. Since 1994, due to budget and FTE reductions, we cut support staff and contracted out such administrative functions as copier, mail and library services. Any further reductions in administrative staff would not be prudent given the size of our agency and our management needs. Therefore, most additional staff cuts would come from our programmatic work. In short, staff reductions would translate into fewer investigations, fewer product recalls, and fewer interceptions of hazardous products entering the country.

1998 PRIORITIES

*Question*. What would you list as your top three priorities for fiscal year 1998?

Answer. All of CPSC's efforts make a vital contribution to reducing the nation's $200 billion annual cost associated with product hazards. Our top priorities for 1998 are:

1. Maintaining our current safety program in 1998. This requires funding of approximately $2 million ($1.2 million for salary and space costs, $300,000 for a Year 2000 compliant accounting system, $300,000 for increased retirement costs and $200,000 to implement new FOIA requirements).

2. Pursuing new safety initiatives to reduce fires, update the nation's child measurement database, and expand the Special Investigations Unit initiative. These initiatives are critical to our efforts to further reduce the nation's high fire death rate, increase protections for children from product hazards, and improve our ability to identify and remedy technically-complex product hazards. These programs require funding of approximately $1 million.

3. Information technology investment. The agency has increased its product safety productivity in part by using information technology. Without further investment, aging information systems jeopardize our ability to pursue current activities and dim the possibilities of future gains in productivity. We would need about $1 million to properly upgrade and improve current systems to meet future workload and to make greater reductions in deaths and injuries.

MULTI-PURPOSE LIGHTERS

*Question*. Your budget request proposes several new program initiatives, including $283,000 to address the nation's high death and injury rate from fire. Your budget justification indicates in 1998 CPSC will undertake activities to address fires started by children using multi-purpose lighters. How did this particular issue emerge as a top priority for fiscal year 1998? What specifically do you propose to do with the requested funds, and what particular activities do you anticipate in fiscal year 1998 to address the issue (such as regulations or working with industry on a voluntary basis)?

Answer. Multi-purpose lighters are lighters with long nozzles that are most commonly used to light charcoal or gas grills, fireplaces and pilot lights on gas appliances. In 1997, the Commission considered a petition requesting that multi-purpose lighters be child-resistant. The Commission granted that petition and initiated a new rulemaking activity by issuing an Advance Notice of Proposed Rulemaking to require these lighters to be child-resistant. The Commission noted that a standard may be needed to reduce the fire hazard to children under 5 years of age starting fires while playing with this product.

The Commission is aware of 67 incidents since 1988 involving fires started by children under age 5 using multi-purpose lighters. These fires resulted in 10 deaths and 26 injuries. Children under age 5 typically are incapable of dealing with a fire once started. This puts them and their families at special risk of injury. Almost all of the 10 fatalities were the children who started the fires. For example, a 4-year-old girl died last September when she set her day bed on fire while playing with a multi-purpose lighter.

Multi-purpose lighters are relatively new products which were introduced to the U.S. market in 1985. Since then sales have increased steadily. One million units were sold in 1985; in 1996, 20 million units were sold. With increasing sales and the attractiveness of these lighters to young children, the Commission is acting to address the fire hazard before the deaths and injuries increase.

In 1998, the Commission will continue working with a contractor to build surrogate lighters and to test several different multi-purpose lighters to determine how child-resistant they are for children under age 5. These results will be used to prepare a cost/benefit analysis for the proposed regulation.

The Commission will decide whether to issue a proposed standard in 1998 and will participate in the development of a voluntary standard if the industry decides to initiate action to address this problem voluntarily.

CIGARETTE LIGHTERS/COST BENEFIT ANALYSIS

*Question.* I'd like to understand better how the agency does cost-benefit analyses. In your statement, you say that CPSC's 1993 standard to make cigarette lighters child resistant saves over $400 million in societal costs. Please explain the basis for this estimate, and more generally the process for conducting cost-benefit studies.

Answer.

*Cigarette Lighter Standard*

Prior to this standard, fires started by children under 5 years of age playing with cigarette lighters resulted in 150 deaths, 1,200 injuries, and $70 million in property damage annually, for a total societal cost of about $900 million (about $750 million in fatality costs, over $60 million in injury costs, and about $70 million in property damage).

The child resistant features of lighters are expected to reduce incidents by up to 70 percent, resulting in $500 million dollars of benefits. Taking into account the estimated $90 million in added costs to comply with the standard, the estimated net benefits to society are about $400 million per year.

*Cost-Benefit Analysis at CPSC*

Under several of the Acts enforced by CPSC, prior to promulgation of a new regulation, the Commission must find that the benefits expected from a rule bear a reasonable relationship to the costs. In developing a safety regulation, CPSC examines the benefits and costs of alternative ways of addressing consumer product hazards. The process involves identifying the extent to which specific remedies will reduce product-related injuries and deaths. It also includes identification and estimation of the full range of costs to society of each potential remedial action.

The benefits of a regulation include preventing injuries, deaths, and (sometimes) property damage from hazardous products. CPSC's Injury Cost Model estimates direct costs (e.g., medical, foregone earnings) and indirect costs (e.g., pain and suffering) of injuries reported through the National Electronic Injury Surveillance System and other injury data sources.

The costs to society of addressing a product hazard include the cost of modifying a product design to make it safer or sometimes simply modifying the product labeling or packaging. Also the Agency takes into account estimated effects of increased consumer prices and product utility. In developing a rule, the estimated benefits are compared to the estimated costs; other economic factors that are not readily quantifiable are also considered (e.g., small business effects, effects on competition).

## GENERAL SERVICES ADMINISTRATION

### CONSUMER INFORMATION CENTER

**STATEMENT OF TERESA NASIF, DIRECTOR**

Senator BOND. Now we will hear from Director Nasif.

I apologize if I have mispronounced your name. If you would, tell us the proper pronunciation and present your testimony. Thank you.

Ms. NASIF. It's Nasif, yes, as you said it.

Mr. Chairman and members of the subcommittee, thank you for the opportunity to present the fiscal year 1998 budget request for the Consumer Information Center.

With me today is Bill Early, Director of Budget of the General Services Administration.

Established more than a quarter century ago, CIC continues to successfully carry out its vital mission mandate of helping Federal departments and agencies inform the public about health and safety issues, developments in Federal programs, and the impact and effects of Federal research and regulatory actions.

Today, many elements of the CIC program remain the same: an essential mission mandate; a commitment to serve the American public; and the firm support of the administration and this committee.

However, the CIC Program is going through a time of change that reflects a new environment in Government and in customer behavior. Overall, Federal agencies have reduced the scope of their publishing activities due to budget constraints, and the American public is placing fewer orders for merchandise, including information, by mail.

CIC is meeting these challenges in two ways. First, we have redoubled efforts to identify private sector partners who share Federal information goals and can provide resources to stretch limited Federal dollars. Second, CIC has set up telephone ordering systems for both the consumer information catalog and its listed publications.

CIC has implemented a toll free number—1–888–8PUEBLO—for citizens to call to receive a copy of the catalog. Also, I am pleased to report that, beginning with the spring 1997 edition, all copies of the catalog will include a telephone number for placing publication orders at the Pueblo facility.

Citizens pay for these calls, thereby sharing in the expense of the program. Making access easier and quicker will encourage more Americans to take advantage of the wealth of information available from the Federal Government.

CIC remains in the forefront of Federal electronic dissemination. The public will access the CIC Internet web site more than 3 mil-

lion times in fiscal year 1997. This is a threefold increase since its inception in fiscal year 1995.

While Americans can now access CIC either electronically or by phone, our address, Pueblo, CO, 81009, remains one of the best known addresses in the country where Americans order millions of publications published by more than 40 Federal departments and agencies.

The Government Printing Office facility in Pueblo provides order fulfillment services for tens of thousands of orders received weekly as a result of the promotion that we do. During fiscal year 1996, consumers ordered 7 million publications from CIC, and in the years ahead we will continue our efforts to make helpful information available to all citizens, whether they are seeking it by computer or by mail.

We are very committed to maintaining a vigorous publication distribution program in recognition of the fact that most Americans still continue to receive their information primarily through traditional print channels.

Our ongoing efforts to identify and obtain valuable Federal information, our media and marketing programs, our centralized distribution system, and our widely acclaimed electronic information activities all combine to make CIC an essential source for citizens needing vital consumer information from their Federal Government.

Mr. Chairman, we trust that the committee will agree that CIC is a valuable Federal program and that you will look favorably upon our request.

Thank you.

Senator BOND. Thank you very much, Director Nasif.

[The statement follows:]

PREPARED STATEMENT OF TERESA NASIF

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to present the fiscal year 1998 budget request of the Consumer Information Center (CIC).

Established more than a quarter of a century ago, the Consumer Information Center continues to successfully carry out its vital mission mandate: Help federal departments and agencies inform the public about health and safety issues, developments in federal programs, and the impact and effects of federal research and regulatory actions. To ensure that the public is made aware of and has easy access to this information, CIC promotes the information through a dynamic media and marketing program and disseminates it through print and electronic outlets.

Today, many elements of the CIC program remain the same: An essential mission mandate; a commitment to serve the American public; and the firm support of the Administration and this Committee. However, the CIC program is going through a time of change that reflects a new environment in government and in customer behavior. Overall, federal agencies have reduced the scope of their publishing activities due to budget constraints. And the American public is placing fewer and fewer orders for merchandise, including information, by mail.

CIC is meeting these challenges in two ways: First, we have redoubled efforts to identify private sector partners who share federal information goals and can provide resources to stretch limited federal dollars. For example, CIC has forged an alliance with the Metropolitan Life Insurance Company's Consumer Education Center to help educate consumers by developing publications on such diverse topics as starting a business, planning for college, making a will, and doing your taxes. And second, CIC has set up telephone ordering systems for both the Consumer Information Catalog and its listed publications. In partnership with GSA's Federal Information Center Program, CIC has implemented a toll-free number (1–888–8 PUEBLO) for citizens to call to receive a copy of the Catalog. IRS will place the number in a mes-

sage on the back of one million tax refund check envelopes and CIC will use the number in our new television public service ads to be released in May 1997.

Also, I am pleased to report that, beginning with the spring 1997 edition, all copies of the Catalog will include instructions for placing publication orders by telephoning the Pueblo facility at 719–948–4000. Citizens pay for these toll calls, thereby sharing in the expense of the program. Making access easier and quicker will encourage more Americans to take advantage of the wealth of information available from the federal government.

And CIC remains in the forefront of federal electronic dissemination as more and more schools, libraries, and families are accessing information through the Internet. The public will access the CIC website more than 3 million times in fiscal year 1998, a threefold increase since its inception in fiscal year 1995. In recognition of the value of CIC's website, plans are underway to display CIC's Home Page address at the top of the newly revised "Blue Pages" listing of government agencies that will be in thousands of local telephone directories nationwide. This is part of the Administration's effort to make government more easily accessible to citizens.

While Americans can now access CIC information electronically and order publications by phone, "Pueblo, Colorado 81009" remains one of the best known addresses in the country where Americans order millions of publications published by more than 40 federal departments and agencies. The Government Printing Office facility in Pueblo provides warehousing and order fulfillment services for tens of thousands of orders received weekly as a result of the Catalog, media mentions, and marketing promotions done by CIC. During fiscal year 1996, consumers ordered seven million copies of federal publications from CIC. In the years ahead, CIC will continue its efforts to ensure delivery of services to all citizens and to make helpful information available to all citizens whether they are seeking information by computer or mail. We are very committed to maintaining a vigorous publication distribution program in recognition of the fact that most Americans still continue to receive their information through traditional print channels.

CIC's ongoing efforts to identify and obtain valuable federal information, its media and marketing programs, its centralized distribution system based in Pueblo, Colorado, and its widely acclaimed electronic information activities—all complement each other and combine to make CIC an essential source for citizens desiring unbiased and vital consumer information from their federal government. CIC remains uniquely positioned among federal agencies to perform the services it has so effectively delivered to the American public since 1970.

Mr. Chairman, again I thank you for the privilege of being here today on behalf of the Consumer Information Center to present its budget request for fiscal year 1998. We trust that the Committee will agree that CIC is a valuable federal program and that it will look favorably upon our request. At this time, I would be pleased to answer any questions you may have.

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### OFFICE OF CONSUMER AFFAIRS

**STATEMENT OF LESLIE L. BYRNE, DIRECTOR AND SPECIAL ASSISTANT TO THE PRESIDENT**

Senator BOND. Now we will hear from Director Byrne.

Ms. BYRNE. Thank you, Chairman Bond and Senator Mikulski. Thank you for giving us this opportunity. We have submitted our formal statement for the record, but I would like to make some brief comments.

Senator BOND. Thank you. All of your statements will be made a part of the record in full. I should have mentioned that earlier.

Ms. BYRNE. Thank you, Mr. Chairman.

Because we have received a generous offer from a group who purport to be Nigerian Government officials, we will not need an appropriation for fiscal year 1998 and we will turn money back to the Treasury. [Laughter.]

They say they find themselves with a somewhat embarrassing surplus of 28.6 million U.S. dollars as a result of an intentionally overinvoiced contract. They have graciously offered us 30 percent if we will bank the entire sum for them in the United States and supply them with several items of personal information, including our bank account numbers.

Their letter closes with, "Let honesty and trust be our watchwords," so it must be legitimate. [Laughter.]

Although this scam is almost laughably transparent, Mr. Chairman, it is a prime example of the type of fraud based on illegal use of personal information that we have focused much of our consumer education, policy development, and coordination efforts on at OCA in the last year.

We are the only agency with White House responsibility to coordinate and monitor Federal consumer programs, identify consumer needs, and educate and advocate for consumers.

Because we are nonregulatory, we have no mixed mission or restrictions on our role to represent consumers.

Mr. Chairman, you have our budget request before you. It shows that we understood what this committee was saying last year about cutting the cost of Government, reducing its size and making it more efficient. We are reorganizing, using technology to make us more productive, helping consumers in a faster, cheaper, and better way, including our HelpLine with the new database that allows us to track consumer complaints and developing web links with the Federal Trade Commission and other agencies.

Our emphasis is on providing consumers the tools to help themselves because it is far cheaper and more efficient than fixing problems after the fact.

For every one of these Nigerian frauds or other frauds like them, even if the authorities can catch the perpetrators, the likelihood is that they will only retrieve 10 cents on every dollar lost. So education and information are the key to protecting consumers and they are the ones who can protect themselves the best.

Because of the shift in our economy, we are looking at a White House conference on consumer issues. We have gone from an industrial based economy to a service and information economy. Our consumer laws really are there for tangible things, for products. We have yet to wrestle with the greater questions of how to protect somebody from a European travel scam as opposed to a product that is faulty.

So we want a national focus on this new paradigm through this White House conference.

Our long-term goals are very simple—to create a fair shake marketplace through disclosure of information, choice, access, and redress. These are the principles of good consumerism.

We plan to recognize organizations that adopt these principles.

Finally, Mr. Chairman, we plan to continue working with members of Congress, this committee, and other agencies on specific consumer information and education issues, in town meetings, in joint seminar formats on topics such as privacy, fraud, financial management—a growing concern—and a new concern, military families, with these being targeted for fraudulent efforts.

Thank you, Mr. Chairman for your attention.

[The statement follows:]

PREPARED STATEMENT OF LESLIE L. BYRNE

Mr. Chairman and distinguished members of the Subcommittee, I am pleased to come before you today to present our fiscal year 1998 budget, to review the progress USOCA has made toward addressing the concerns expressed by this committee, and to share our plans for the coming year.

Our fiscal year 1998 budget request is for $1,800,000 and 13 Full-Time Equivalent staff positions.

Our Agency's Mission remains unique. Our charge is to be the consumer advocate within the Executive Branch, both domestically and in the international marketplace. Because USOCA is non-regulatory, it is our singular conviction that we can better protect consumers by giving them the tools they need to protect themselves, through education and information. This becomes an even more important concept in an era of deregulation.

This Committee has rightly expressed its concern about government's role, outdated and costly regulations, duplication of efforts, and the need for a smaller but more effective government. We at USOCA have heard your message loud and clear. In listening to the concerns of the American people, we have also heard loud and clear that they want consumer education and protection that must be strengthened, not endangered.

To meet this committee's and the public's concerns, we continue to re-tool USOCA's organizational structure. I am in the process of reorganizing staff and functions to be more responsive. We are currently developing our performance measurement standards and indicators to meet GPRA's September 1997 deadline. Through these initiatives, we are becoming a more results oriented agency whose progress towards the goal of consumer education and information will be accurately measured. To further fulfill our mission, USOCA is reenergizing the Consumer Affairs Council (as mandated by Executive Orders 11583 and 12160). This will allow government agencies to reduce duplication and avoid redundancies in consumer policy.

PRIORITIES

USOCA continues to focus its efforts in three primary areas of consumer concern: privacy; fraud; and the integrity of the marketplace. We addressed these areas

through information and education with special emphasis on underserved populations. We are also working to improve responsiveness by both government and industry to consumer complaints and inquires. Based on these three areas, real accomplishments were gained during fiscal year 1997 and specific initiatives are identified for fiscal year 1998.

PRIVACY PROTECTION

The public's desire for protection from intrusiveness grows and touches every institution. Government agencies, multimillion-dollar corporations, "mom and pop" operations, are being more vigorously challenged in their information gathering. Consumers want to be told, in language they can understand, why information is being collected, what will be done with it, and who will have access to it. People want to be sure the information they give is pertinent to transactions, and will not be used or sold for other purposes without their prior approval. All of us want to be able to see what is being collected about us and to have an uncomplicated way to correct errors and/or include explanations.

Because of increased data collection and technology, we are seeing a national increase in identity theft. USOCA continues its cyber-fraud prevention efforts by informing the public on ways to protect themselves from identity theft and securing personal information on the Internet. Using traditional media such as print articles, press releases, T.V., speeches, brochures, etc., we have reached hundreds of thousands of Americans with information they can use to protect their personal information. We want to expand these efforts in fiscal year 1998 by establishing and maintaining a web-site with this information.

On the international front, the absence of a U.S. privacy policy is at odds with our European trading partners stance on the issue of privacy. American companies may face self-imposed trade barriers if USOCA cannot continue its work in harmonizing global marketplace privacy protection guidelines.

A major illustration of USOCA's work in this area was as a catalyst in alerting the nation to the fact that personal information about consumers was being gathered and often used for purposes other than those for which the information was volunteered. Our work with industry improved communication between providers and consumers on this issue. We have persuaded many corporations to give the public a choice about how their personal information is used—by permitting consumers to determine whether or not the information they give a company will be shared with other companies, (for example, information on credit applications). At the same time, USOCA organized a working group of Federal agency representatives to examine the issues and privacy policy options. During our National Consumers Week Kickoff Conference in October 1995 at the White House, this group, called the Privacy Task Force, released the Federal Privacy Principles—guidance for industry, government, and individuals about how to protect personal privacy.

In 1997–98, USOCA and the Privacy Task Force will continue working with government agencies and the private sector (both domestic and international) to refine and adapt the Privacy Principles, for implementation, particularly by users of the information superhighway. Increasingly, the World Wide Web and other electronic tools are being used for consumer purchases of products and services and interactions with government. The success of electronic commerce and the Internet depends on consumers belief in the security and integrity of this new medium. To achieve the full potential of the electronic marketplace, consumers want to be protected from a loss of control of personal information and, in the worst case, fraud. With personal, financial, health and other sensitive information going directly into computer data bases for storage, retrieval and manipulation, the need for consumer confidence in the security and control of that information is critical.

It is USOCA's belief that the need for information by government and industry can be balanced with consumers' desire to preserve their privacy and control the use of personal data. Our goal is to protect consumers while encouraging growth and innovation in the use of telecommunications and information management technology. We find that industry shares our belief that a balance can be struck without unnecessary and burdensome regulation.

We will continue to work with industry, government and consumers to achieve this goal. To lead by example we are developing a program to publicly recognize those who contribute to the protection of consumer privacy. This honor would be an award presented annually to various business, non-profit, government, and consumer organizations for outstanding efforts in privacy protection, particularly in areas where technological advancements encroach on personal privacy.

CONSUMER FRAUD PREVENTION

USOCA continues its efforts to raise consumer awareness about fraud. Scams and fraud cost consumers over $100 billion annually in America. A new and growing target of fraud is military families. USOCA is working with the military personnel and their spouses to reduce the number of families harmed by these scams.

Additionally, the growing use of credit and debit cards, of telephone and of Internet for purchasing goods and services, multiplies opportunities for fraud and increases the need for consumer education. USOCA is working closely with major credit card companies, media, trade associations, and consumer organizations to promote extensive consumer education campaigns. In addition, USOCA will continue to work with the Department of Treasury and other agencies overseeing electronic commerce to ensure that consumers know how to protect themselves from fraud. Again our proposed web site will allow the public to electronically access USOCA publications and information directly. Because the problems of consumer fraud require constant attention, we will publish an updated version of our popular pamphlet, "Too Good To Be True." This newest edition of the publication will be the centerpiece of an anti-fraud campaign in 1998.

TELECOMMUNICATIONS AND TELEMARKETING FRAUD

Currently, USOCA's policy development efforts focus primarily on the profound changes that technological advances in telecommunications and information management have wrought in the marketplace. These changes acutely affect consumers, with potential for both good and ill, and create a need for government and industry to find means to balance the consumer/provider interests and promote probity and fairness in the marketplace.

For example, as a result of consumer complaints to USOCA's toll-free National Consumer HelpLine, our office, in cooperation with the Federal Trade Commission (FTC) and the Federal Communications Commission (FCC), convened a series of industry/consumer/government meeting on abuses in the telephone information services industry. The initial meeting, held early in fiscal year 1996, alerted the industry and Federal regulatory agencies to significant problems with "pay-per-call" information services, despite recent legislation. Subsequently, a second USOCA-convened meeting was held to develop proposals for voluntary action on these problems. A third meeting produced major changes in the industries ethical guidelines. With the passage of The Communications Act of 1996 and the proposed legislation, "Telemarketing Fraud Punishment and Prevention Act of 1996", Congress may further authorize regulatory action that will resolve some of the problems consumers are experiencing. Prevention still remains the best antidote to fraud.

OUTREACH AND SERVING THE UNDERSERVED POPULATIONS

Outreach is a critical element in the success of USOCA's mission, especially to consumers who have traditionally been underserved: the disabled, frail, elderly, geographically isolated, ethnically diverse. Through consumer dialogues we have worked with neighborhood leaders to discuss the concerns and problems of consumers in their communities. Most importantly, community leaders have given us their recommendations on how government and the private sector can improve the delivery of consumer information to diverse communities.

USOCA is successfully recruiting leaders from ethnic communities to advise this office on consumer issues that affect diverse communities. Our goal is to build an "early warning system" with these groups to keep consumer problems from becoming larger, which leads to regulations or legislation that could be avoided if people can find redress early on.

USOCA has provided consumer education materials and conducted workshops at a variety of conferences and seminars sponsored by organizations representing the elderly and citizens with disabilities. In the first quarter of fiscal year 1997, USOCA developed a working group to discuss and formulate an agenda regarding consumer issues of particular concerns to the 49 million Americans with disabilities. USOCA is committed to encouraging marketers and employers to recognize consumers with disabilities as deserving of consumer rights as fully abled people.

Town meetings and seminars are being planned around the theme, "Real People—Real Challenges." The aim of these fora is to provide an opportunity for traditionally underserved communities to discuss their consumer concerns. USOCA also plans to convene consumer education opportunities for youth in major cities throughout the country .

Outreach to youth will include educational programs and projects to raise public awareness and to generate support for personal financial literacy for our children

and young adults. By working with organizations such as the JumpStart Coalition for Personal Financial Literacy, which includes the National Institute for Consumer Education of Eastern Michigan University and the American Financial Services Association, USOCA will expand its mission by encouraging "responsible use of credit" and "planning for savings, spending and investing to meet current and future needs" among America's consumers under the age of 18.

National Consumers Week (NCW) observed annually during the last week in October, is a signature event of the United States Office of Consumer Affairs and the nation. It is a major promotional event that highlights consumer education by informing consumers about their rights and responsibilities in the marketplace.

Representatives from business, all levels of government, educational institutions, consumer organizations and media use this unique opportunity to encourage dialogue with consumers about a variety of important issues. With coast-to-coast involvement, planning and execution of NCW activities is a year-round undertaking. Recruitment of NCW public/private partnerships, follow-up activities, coordination with the Executive Branch and the White House, preparation of written materials and the development of various reports and documents are crucial to the success of NCW. This year's NCW theme is " A Fair Shake Marketplace."

A White House Conference on Consumer Issues is being planned for October 1998. Our economy has changed from industrial based to service and information based. The nation's response to the new challenges this creates for consumers, has been slow. USOCA is proposing a new look at consumerism brought about by this profound shift in the economy. The consumer rights associated with tangible products are more difficult to ascribe to non-tangibles like services and information. We are using our resources for a national focus on this new paradigm.

*Communications.*—USOCA has maintained a moderate communications operation. Due to the current budget shortfall USOCA has ceased to publish its newsletter. The newsletter circulation included hundreds of consumer groups, professional associations and media outlets. Within the fiscal year 1998 request, we plan to restore the newsletter to semi-annual publication.

Another trademark event for USOCA has been the Constituent Resource Exposition (EXPO). Traditionally held for each new Congress, EXPO has served as an educational event for congressional staff where they meet representatives of Federal Agencies, discuss agency programs, and obtain pertinent information which enabled them to better respond to constituent requests in the Member's districts. This event helped eliminate Federal waste and red tape caused by misdirection of constituent complaints and queries.

Again because of budget issues, USOCA has decided to take a different approach to reaching congressional staff members to disseminate information—a method which may prove to be more efficient and cost-effective. USOCA is working to conduct workshops in partnership with the Congressional Research Service (CRS) for Senators, Members of Congress and their staffs. At these workshops, USOCA's much requested publication, the Congressional Liaison Handbook (CLH) will be distributed. The CLH directs staff to appropriate agency consumer and congressional liaison officials.

The primary tool with which USOCA has traditionally used to reach a broad cross-section of the population is the Consumer's Resource Handbook. This award winning resource is one of the most popular publications produced by the Federal government. It is filled with valuable information and "Buying Smart" tips for consumers to assist them in making informed choices and avoiding pitfalls such as fraud in the marketplace. Just as important are its listings of both private and public sector resources for consumer information and problem resolution. Keeping this information relevant to consumer problems in the marketplace, as well as complete and accurate requires more than checking addresses and telephone numbers.

USOCA has in place the staff, expertise, knowledge, skills and interaction with industry, government agencies, consumer organizations and individual consumers needed to produce this Handbook. Any other agency handling this would assume research, training, and production costs well above the costs incurred by this office.

There is a significant amount of work that could be done in 1997 on the 1998 edition of the Handbook. For example, the inclusion of E-mail addresses and web sites available for complaint handling. Currently, we are working with the FTC on a single Web-link to Federal web sites, at the address, consumer.gov, for which the Handbook's index would serve to guide consumers through the maze of Federal, state and local agencies with jurisdiction over consumer problems. To do this effectively there is considerable work to do to make the index more user-friendly in the Internet environment.

Funding for the Handbook, as well as other consumer education publications have been accomplished through public and private contributions. Gift acceptance author-

ity is extremely important to ensure that adequate numbers of these publication are updated and available to consumers. In addition to the Handbook, four significant publications/studies scheduled for fiscal year 1998, such as, "Protecting Your Privacy," "Too Good To Be True 2000—A Consumer Guide to Avoiding Fraud in the New Century," and "Improving Customer Service" will require research, editing, design, printing, and distribution.

RAPID RESPONSE FOR CONSUMER COMPLAINTS

The National Consumer HelpLine is a toll free number available in every state and U.S. territory offering a rapid response to consumer complaints through referrals and consumer information. It is staffed four hours a day by USOCA's professional staff, including its director, who refer or answer questions on the spot. We call back anyone who leaves a message during non-staffed hours. HelpLine is serving as the central federal clearinghouse for consumer complaint handling. Through the HelpLine, we make our decades of experience with consumer issues available to all Americans.

Calls are logged into a database to help USOCA keep abreast of new trends such as fraudulent schemes in telemarketing, sweepstakes, and pay-per-call and long distance telephone billing. It tracks consumer complaints on automobile repair, home maintenance, warranties, stock fraud and returned merchandise. Other areas generating frequent calls are credit reporting and credit harassment, direct marketing and mail order complaints, insurance, mobile homes, Social Security and Medicare, student loans, and airlines.

It provides a window on the public's reaction to developments in the marketplace long before the media or researchers can identify them. Dialogues with companies, trade associations, consumers and regulatory agencies have followed. In some cases, due to the industry being made aware of consumer problems, action has been taken to eliminate the need for new regulations. This is in keeping with the President's initiative to eliminate unnecessary regulations.

DOMESTIC POLICY

USOCA has no regulatory authority but it directly impacts proposed legislation and regulations being considered by Congress and the Administration. USOCA is regularly solicited for input or comments on proposed legislation, regulations and reports. While the demand for USOCA review has increased over the last decade the number of employees has dramatically decreased. USOCA has been involved with such complex issues as privacy, emerging technology, the global marketplace, anti-terrorism, debt and credit, and fraud.

USOCA is the sounding board on consumer issues for buyers, sellers, all levels of government, neighborhood groups, and consumer organizations. We are the consumer's voice in the decisions of government and the impact of proposed legislation and regulations on their lives.

INTERNATIONAL POLICY

Representing the interests of U.S. consumers in international forums, USOCA provides support to the President's consumer advisor as head of the U.S. delegation to the Committee on Consumer Policy of the Organization for Economic Cooperation and Development (OECD). The U.S. has taken a leading role in the areas of product safety, lowering tariff barriers for services and consumer redress in the international marketplace. The U.S. has encouraged OECD to adopt the use of new technology on global warning systems for product safety and consumer fraud.

The world stands at the doorstep of a great expansion of cross-border consumer transactions. Interest in the changing global marketplace and how it affects consumers is widespread among businesses, consumer advocacy groups, educators and world leaders. As consumer policy issues are increasingly internationalized, the need for effective mechanisms for the exchange of critically important consumer information, product safety, and efforts to counteract fraud and deception in the marketplace becomes more urgent.

USOCA's role is vital as head of the U.S. Delegation to the Committee on Consumer Policy of OECD in order to fully represent America's consumer interests. It is viewed by our OECD partners as a beacon of leadership particularly for countries just becoming free market economies. Newly emerging nations from the former Soviet Republics want to study our governmental and nongovernmental structures as they seek to develop national consumer policy in a free market setting. USOCA also assists visiting delegations from other nations that wish to study our consumer protection system and our unique network of citizen run consumer organizations.

INTERAGENCY COORDINATION

USOCA chairs and coordinates the Consumer Affairs Council and provides staffing. The Consumer Affairs Council was established as a body of senior consumer policy officials designated by the heads of Federal departments and agencies to provide leadership, coordination and effective management to consumer protection and policy initiatives. It has been used effectively in recent years to coordinate cross-cutting initiatives, such as National Consumers Week, The Constituent Resource Exposition (EXPO), and the Consumer Resource Handbook publications and distribution. We intend to also use the Council as a means to raise standards of customer service and achieve greater consistency in consumer policy implementation government-wide.

CONCLUSION

Mr. Chairman, this is a conservative budget. With the support of this committee, USOCA can fulfill its mission to empower every American to make the best choices in the marketplace. With our emphasis on education and information we arm the public with the tools they need to avoid the frauds, scams, charlatans and con-artists. We can give them the peace of mind and security to enter into new marketplaces, whether cross borders or in cyberspace and most importantly assure families redress if things go wrong. The subcommittee's choice is clear: help us, help your constituents or rely on after-the-fact remedies like more laws, more regulation, and more police trying to catch the crooks. Even when law enforcement is successful, it only recoups a small fraction of the money lost to our citizens and honest and ethical businesses. Mr. Chairman, we can do better.

I would like to thank the Subcommittee for allowing me to express these views and I would be glad to answer any questions you have for me.

SMALL BUSINESS REGULATORY ENFORCEMENT FAIRNESS ACT [SBREFA]

Senator BOND. Thank you very much, Director Byrne.

Let me turn to some questions. Let me begin, Chairman Brown, with a question that is near and dear to my heart as author of the Small Business Red Tape Relief Act, also known by the mind-numbing, eye-glazing acronym of SBREFA. I appreciate your attention to that legislation. The law requires agencies to establish a policy or program to provide for penalty reductions or waivers where appropriate to accommodate the good faith efforts of small businesses to comply with agency regulations.

What steps has your agency taken toward instituting such a program? When do you see it up and running?

Ms. BROWN. We have it up and running now because we have long been sensitive to the needs of small business. In fact, in June 1996, the agency sponsored, with the Small Business Administration, a very well attended conference on small business and consumer product safety. At that conference, we announced the designation of a CPSC small business ombudsman, who will help direct calls from small business operators and insure appropriate followup.

So far, through direct contact with CPSC staff, we have helped more than 700 small business persons comply more easily with our product safety guidelines. We, therefore, helped them to manufacture safe products.

Requests to our ombudsman for assistance average about 90 calls per month and represent 35 States and foreign countries. Our goal is to provide expert assistance to every small business within 48 to 72 hours of when they call CPSC for help. To date we have been about 80 percent successful in meeting our goal.

Senator BOND. I appreciate that good work.

Is there a waiver program in place? Do you impose fines for violations of your regulations?

Ms. BROWN. Yes; Clarence Bishop is the small business ombudsman and perhaps you would like him to answer that.

Mr. BISHOP. Good morning, Mr. Chairman.

Senator BOND. Good morning.

Mr. BISHOP. Good morning, Senator Mikulski.

Senator MIKULSKI. Good morning.

Mr. BISHOP. Yes, sir; we do have a waiver program in place through our compliance department, although we have not had to use it to date.

Senator BOND. What would be the normal range of fines that you would impose?

Ms. BROWN. We are going to pass your question one more time. This will be David Schmeltzer, head of our Department of Compliance.

Mr. SCHMELTZER. Good morning.

Our statute provides for civil penalties of up to $1.5 million. We are directed to consider the size of the business when levying the fines, and we always do. We have about 15 fines per year, and when we deal with small businesses, first we try to explain to them how to meet the regulations. If there are violations, then we take into consideration the size of the company and the appropriate figure. All of these cases are resolved through settlement procedures.

Senator BOND. Rather than carry on the discussion further, we would appreciate having a report on the fines, what you are doing and how, and particularly if there are small businesses involved.

Thank you very much.

[The information follows:]

PENALTIES FOR SMALL BUSINESSES

The Commission staff has authority to pursue civil penalties against firms who fail to report a product hazard to the Commission under section 15(b) of the CPSA, 15 U.S.C. § 2064(b). Since 1990, it may also pursue penalties against firms who knowingly violate the safety standards of the FHSA, FFA and PPPA.

The Commission has always placed an emphasis on seeking voluntary compliance with our laws first. When product hazards exist, our first effort is to obtain corrective action. Some of these violations are committed out of ignorance, others because the firms choose not to put time and money into complying with the law. Civil penalties are used sparingly and generally only pursued against repeat violators.

The purposes of a civil penalty are to deter the firm from future violations of our safety standards and to deter others from such violations. Under our laws, the Commission must consider a number of factors in deciding whether to pursue civil penalties. In determining whether a civil penalty is appropriate and the amount of the penalty, the Commission's laws require the agency to consider the risk of injury presented by the product and "the size of the business of the person charged" along with other factors. (See, section 20(b) of the CPSA, 15 U.S.C. 2069(b)). The staff also examines the level of sophistication and knowledge of the firm involved and the gravity of the violation.

*Reporting Violations*

The staff received 239 section 15(b) reports in fiscal year 1996 and investigated many other products. The staff's primary focus was on corrective action and the vast majority of the cases were resolved by voluntary corrective action plans with no penalty. In fiscal year 1996, the agency obtained penalties from 5 firms who failed to report under section 15(b) of the CPSA. None of these 5 firms were small businesses. In addition, an agreement was reached with one firm which did not result in a civil penalty.

*Regulated Products*

In fiscal year 1996, the staff discovered hundreds of violations of the Commission's safety standards. When the staff learned of a violation of a regulation, it advised the firm of the violation, addressed the hazard, and sought to bring the firm's products into conformance by working with that firm.

Out of the hundreds of violations found, the staff obtained only 4 (3 were small businesses) penalties and initiated two federal court actions for penalties against firms for regulated product violations in fiscal year 1996. (The Commission reduced one of those penalties to $5,000 from a negotiated penalty of $10,000 because of the small size of the firm involved.)

The two Federal Court actions initiated in fiscal year 1996 were against a fireworks importer and a children's products importer. Each had more than ten violations and had not taken reasonable steps to correct the violations. *U.S.* v. *Big Save International Corp.* (C.D. Cal., No. 96–5318), and *U.S.* v. *Shelton Fireworks,* (W.D. Mo., No. 96–6131–CV–SJ–1) (23 violations). Both firms are small businesses.

During the last several years, the staff has worked with many small businesses who are repeat violators to bring them into future compliance without civil penalties. Toward that end, the staff has used meetings, inspections, and compliance agreements. It has also put civil penalty cases "into abeyance." (This means the firm is informed that we could seek penalties, but do not plan to do so if the firm does not commit future violations.)

*Ability to Pay*

Although the Commission's laws refer to the size of the business charged, as the factor to consider, the staff also takes into account the firm's ability to pay in determining the appropriate amount of any civil penalty and the payment terms. In three cases involving smaller firms, the staff has structured the payment of penalties so the penalty amount will send a strong message, but the payments are spread over time to allow the firm to continue as a viable concern.

*Civil Penalty Report*

[Final orders]

| | *Fiscal Year 1996* |
|---|---|
| Burlington Coat Factory (FFA) | $250,000 |
| Cosco, Inc. (§ 15(b), CPSA) | [1] 725,000 |
| JBI, Inc. (§ 15(b), CPSA) | 225,000 |
| National Media (§ 15(b), CPSA) | 150,000 |
| Premier [2] (FHSA) | [1] 75,000 |
| Shrdlu, d.b.a.[2] (FFA) | 5,000 |
| Singer Sewing Co. (§ 15(b), CPSA) | 120,000 |
| SKR Resources, Inc.[2] (FHSA) | [1] 40,000 |
| Taito America Corp. (§ 15(b), CPSA) | 50,000 |
| Total | 1,640,000 |
| Other remedies: McDonalds, Inc. § 15(b), CPSA | [3] 5,000,000 |
| Referred to Department of Justice: | |
| Big Save International Corporation [2] | |
| Shelton Fireworks [2] | |

[1] Structured Payment Schedule.

[2] Small Business—CPSC follows 15 U.S.C. 632 which states that the business must meet the criteria of being independently owned and operated and not dominant in its field of operation. In addition, the Small Business Administration sets size standards for various industries which are published in 13 CFR Part 121. Industries are identified by their Standard Industrial Classification (SIC) Code and their maximum size to be considered small is determined by either annual receipts or number of employees. If the industry is not listed in the CFR, the default size standard is $5 million in annual receipts.

[3] Program.

## CPSC BUDGET

Senator BOND. Chairman Brown, you have indicated that the budget request is modest. But even a 6-percent increase, to $45 million, over the current year when overall funding is likely to be held flat is difficult. What lower priority items would you eliminate or reduce if we had to hold you at a level funding.

Ms. BROWN. Level funding meaning the $42.5 million?

Senator BOND. Yes.

Ms. BROWN. That would be extremely difficult for us, of course, because there would be a reduced level of safety, I think, to the American people. We would have a problem even in holding level. That does not mean that we would be holding level. Many of our information technologies, which is very important, much of that would not be able to be done.

Senator BOND. In the budget process, sometimes you have to make hard choices. Rather than strangling every program, sometimes it is better to cut the lower priority program.

Is there a lower priority program?

Ms. BROWN. At this point, I will have to get back to you and think about that because we are on such a bare bones budget now, as we are, that I just cannot think of any. We have already reduced. We have put our two laboratories together. I am thinking that there are so many things we have done. We have cut down on training of our personnel.

I am not trying to be evasive, Mr. Chairman.

Senator BOND. I understand, but that is something we would like for you to think about in case the worst happens.

[The information follows:]

EFFECT OF BUDGET REQUEST CUT

Any cuts to CPSC's budget would simply not be cost-beneficial. CPSC delivers more than $155 million in savings to the American public for every $1 million invested in the agency. Furthermore, the work of the agency has been a major factor in the 20 percent decline in annual deaths and injuries related to consumer products that occurred between 1980 and 1993. Any cuts to CPSC's budget at this point would reduce this tremendous return on investment for consumers and would place more families at risk from dangerous products.

Limiting CPSC's 1998 funding to the 1997 level of $42.5 million is approximately equivalent to a $2 million budget cut.[1] But CPSC is already half the size it was in 1980, while our mission has grown substantially.[2] To accommodate these reductions, we cut staff and trimmed away spending. We are now a lean and efficient operation. Therefore, any further budget reduction would cut directly into our safety programs.

A $2 million budget reduction would force cutbacks in new safety initiatives planned for 1998 and in current safety work. The very difficult decisions of exactly which life-saving initiatives to sacrifice if this were necessary can not be made until we are much closer to new fiscal year.

We believe that any cut in CPSC's budget at this time would rob the American public of essential safety benefits. Injuries from consumer products presently cost this country $200 billion each year. Past successes by the agency show that we can reduce deaths and injuries without expensive and intrusive interventions. The additional funds requested for 1998, $2.5 million, are small. Judging by recent accomplishments, this modest investment will deliver almost $400 million in benefits to U.S. consumers. This small investment will keep one of the country's best working assets in good working order and build a better future for American families.

When the subcommittee receives its budget allocation, if cuts are indeed necessary, we will certainly work with the subcommittee staff to identify those that would result in the least damage to our mission.

Senator BOND. Senator Mikulski.

Senator MIKULSKI. Thank you very much, Mr. Chairman.

---

[1] The agency needs a minimum of $2 million over 1997 funding if it is to fund non-discretionary cost increases occurring in 1998. This includes $1.2 million for increased salary and space costs, $300,000 to make its accounting system Year 2000 compliant, and $500,000 to fund proposed increased retirement contributions and carrying out of Freedom of Information Act amendments.

[2] CPSC's budget has fared worse than most other health and safety agencies. For example, from 1981 to 1996, EPA's budget increased 25 percent and FDA's budget increased 56 percent while CPSC's budget decreased 45 percent.

I have no questions for Ms. Nasif. But I do want to thank you for the excellent and continued work that you have done.

We have had these conversations now for many years, and I must say that all of the literature that comes out of your shop is really I think remarkably received by the taxpayer. Often they wonder if they give us $1, we're going to spend $2 and at the end of the day have nothing to show for it that means anything in their day to day lives.

The practical information that you disseminate, whether it is on how to buy a car or how to buy long-term care insurance is wonderful. I have looked at all of those. The very excellent check lists were helpful.

I, myself, used your guide in looking for long-term care insurance because I was ready for purchasing that product. Like any other consumer, I wanted to know what specifically I could turn to.

I could go over many issues like that. So I thank you.

I know you face many financial challenges because you must be ready for the electronic world. But most people still will get their information through a printed form. So we look forward to working with you.

Ms. NASIF. Thank you, Senator.

FRAUD PERPETRATED AGAINST ELDERLY

Senator MIKULSKI. Congresswoman Byrne, I have a question about HHS consumer affairs.

What does your organization do to protect people against fraud in those areas that are vulnerable in HHS service delivery areas? I am thinking about Medicare scams, for instance. You know, there are so many scams going on now among senior citizens, whether it is in products, though not the dangerous ones that Ms. Brown so effectively oversees—that privacy of information is absolutely important and I understand that.

But there are a lot of scams going on in the area of Medicare and health care, et cetera. Are you involved in that?

Ms. BYRNE. What we try to do is go out to the communities of seniors and make them aware of these scams. One of the things we find is that we hear about them after the fact, after the widow has been deprived of $70,000, not once over a scam but once she gets on a sucker list it's again and again and again. She has been proven vulnerable in one instance. There are actual lists that are published, shared among the scam artists that allow them to go back to her.

So what we are trying to do with education and information is get information out into the hands of seniors.

Senator MIKULSKI. And how do you do that?

Ms. BYRNE. We do it through AARP and all of the other organizations. We work very closely with senior organizations, such as the Senior Citizens Council, the AARP, in educating their members. We do media campaigns in senior citizen areas that are heavily populated. We send out alerts when we find out a particular scam is in a neighborhood, for example. That is all to that effort of getting information to the consumer.

The other, the back end to that is through our HelpLine and this kind of first alert that we have, we are able to notify law enforce-

ment agencies when there is a scam going on directed toward senior citizens or anyone else. So when they call us, we go after them.

Senator MIKULSKI. Thank you. I think everybody wonders what is—not really your personal job—what is the job of your agency.

Ms. BYRNE. Right.

Senator MIKULSKI. I really think that where there is need there is greed, and where there is greed there is scam; and where there is scam, there is scum.

Ms. BYRNE. That's right.

Senator MIKULSKI. That's the way I see it.

Ms. BYRNE. You got it.

Senator BOND. Let me jot that down.

Senator MIKULSKI. It's need/greed, scam/scum.

I would hope that, instead of looking with a broad brush across agencies, really that agency, particularly with the senior population that is so vulnerable, is so helpful.

Ms. Brown, regarding your agency, you are now talking about a new fire prevention, death prevention initiative. Could you tell us—and I know my time is short——

Senator BOND. Take your time.

CPSC INITIATIVES

Senator MIKULSKI [continuing]. Where did that come from? Where did that idea come from? That then takes me to a second question, which is are you moving the Consumer Product Safety Commission to what I call a risk based strategy focus. I mean, in other words, looking at those consumer vulnerabilities that are most likely to affect most of the American people.

Ms. BROWN. The way that we figured out the fire initiative is because that is where the major deaths, injuries, and property damage occur. So we are always a data driven agency. We have a fine data system, a hospital emergency room system. We are driven by the fact that we must prioritize. We must prioritize in this era of limited resources and that must be done based on where the greatest injuries and deaths occur.

We have three new initiatives, to reduce fire deaths and injuries, consideration of a multipurpose lighter standard, evaluation of our child resistant cigarette lighter standard, and investigator training for CPSC investigators. All of those were arrived at because that is where we see the largest number of injuries and deaths.

Senator MIKULSKI. And what are the other top two?

Ms. BROWN. The other top two apart from fire?

Senator MIKULSKI. Uh-huh.

Ms. BROWN. Those would be children's injuries and deaths, which are, of course, always important to us, and sports injuries. All of those were arrived at when we looked at our data and we saw where is the greatest need.

Senator MIKULSKI. Let me say just one word about fire. I know that it is one of the terrible problems in my communities in Maryland. Once again we just suffered the death of three children, and we would hope that you are also going to be coordinating with FEMA and the national association. FEMA has the firefighters. I will get back to floods in a minute. We hope you do work across agency lines in this area.

What we hope and what we tried to get FEMA to do and EPA—this committee has been around management—is not to go after individual boutique issues that capture the headlines—and I'm not saying you do, but we all know how that goes—but to focus on where most people are at risk, whether it is to scams and being defrauded, such as buying the hearing aid that is going to solve all of your problems, all those sorts of things. That is important.

It is very important to me that we coordinate with other agencies. The issue of firefighting and fire prevention is an intensely local, block by block issue. How will you be coordinating there?

WORKING WITH OTHER AGENCIES

Ms. BROWN. We are already working with the Fire Administration on many of our fire efforts and other efforts as well. They are funding some work that we are doing on stoves and burners.

We work very closely with FEMA, as well, as we have during this flood. They are giving out all of our material about how people will reenter a house and the dangers that lurk when people reenter a house that has been flooded.

I have a list of the agencies with which we cooperatively work. I would be delighted to submit that for the record so that you can see that one of our major goals is to work cooperatively across Government, both in Government and outside of Government with industries and other organizations. It really is a way to aggrandize your resources. I would like to submit that for you.

Senator MIKULSKI. Thank you.

[The information follows:]

WORKING WITH OTHER AGENCIES AND ORGANIZATIONS

CPSC works with many Federal agencies and private organizations in many ways to advance safety programs and to maximize the effect of CPSC safety efforts. These relationships have proven very productive to the agency and the American public because they provide greatly expanded resources to the problem of hazard reduction at little cost. We are always careful not to duplicate services of other organizations, but to complement and augment one another. CPSC offers other agencies unique abilities to identify hazards and analyze hazards, and at times, suggest practical ways to reduce hazards. For example, CPSC has the best system in the world for collecting information about hospital emergency room visits—The National Electronic Injury Surveillance System (NEISS). Many agencies purchase services from NEISS to obtain data about injuries within their jurisdiction. In one example of such an arrangement, NEISS is providing children's injury data to the Department of Transportation for its work on children and airbags.

The reduction of fire hazards provides an excellent example of how CPSC works with other organizations. CPSC has a long and productive relationship with local and State fire organizations. CPSC depends on fire data, collected by local fire departments and coordinated at the State level through the National Fire Incident Reporting System, to provide essential support for our regulatory mission. In addition, special in-depth field investigation projects regarding fire incidents almost always rely on close coordination with local fire departments. Examples of such projects include cigarette lighters, upholstered furniture open-flame fires, smoke detectors, and range fires.

CPSC has also worked with local fire departments and community groups to develop community-based smoke detector programs. Recently, under a program organized by CPSC, 5,000 smoke detectors were distributed and installed by firefighters or trained volunteers in 10 cities, targeted to vulnerable populations.

CPSC also works with many national organizations to address fire hazards:

The U.S. Fire Administration (USFA) collects and provides essential data on residential fires to CPSC, stimulates new technology, and conducts public education campaigns relating to fire. USFA has provided supporting funds for CPSC projects on Range Fires, Smoke Detectors, and Home Electrical Wiring Systems.

The National Institute of Standards and Technology (NIST) performs basic and applied research in the fire sciences, provides their facilities for CPSC special fire testing, and serves as a comprehensive resource for standards information. NIST is providing fire test facility support for our current project on Fire Safety Devices.

The Centers for Disease Control and Prevention (CDC) provide programs and grants to expand community awareness in the field. CPSC staff participates in the CDC Healthy People 2000 Work Group on Fire Prevention, and CPSC has provided funding in support of their fire prevention initiative.

The Congressional Fire Services Institute (CFSI) was a member of the Steering Committee of our National Smoke Detector Project.

CPSC communicates with other agencies that have regulatory authority and conduct research in areas beyond CPSC jurisdiction such as the Federal Aviation Administration (aircraft), the Occupational Safety and Health Administration (workplace), the National Highway Traffic Safety Administration (automotive), and the Department of Housing and Urban Development (manufactured housing).

The private sector organization, the National Fire Protection Association (NFPA), also collects and provides CPSC residential fire data in addition to developing and publishing this country's national fire codes and voluntary standards, investigating major fires, and conducting public information and education programs.

In October of 1996, the Commission signed a Memorandum of Understanding with the International Association of Arson Investigators (IAAI) through the Commission's Special Investigations Unit (SIU). The IAAI is a non-profit technical and educational organization comprised of volunteers through various government organizations, such as ATF, insurance investigators and certified fire investigators. This cooperative effort allows both organizations to work together toward the common goals of improving public fire safety, sharing technical information and training fire investigators. In addition, the IAAI publishes bi-monthly Commission recalls to notify IAAI members of fire hazards associated with potentially defective consumer products.

CPSC works cooperatively with many other public and private organizations on a variety of product safety efforts. Federal agencies we have worked with include:

—Centers for Disease Control (data collection on a wide-range of injuries)
—Customs Service (import surveillance to prevent entry of unsafe products)
—Department of the Army (share information and expertise on injury prevention, baby safety events, lead in playground equipment)
—Consumer Information Center (distribution of CPSC safety publications)
—Department of Energy (chemical emissions from consumer products)
—Department of Housing and Urban Development (injury prevention in housing)
—Department of Health and Human Services (injury prevention, data collection)
—Department of Interior (playground safety in National Parks)
—Department of Justice (data collection)
—Environmental Protection Agency (indoor air, lead poisoning, chemicals)
—Federal Emergency Management Agency (injury prevention in disaster situations)
—Federal Trade Commission (data sharing on consumer protection legal actions)
—Food and Drug Administration (poison prevention)
—Fire Administration (fire safety and fire education programs)
—Indian Health Service (injury prevention, fire safety)
—National Highway Traffic Safety Administration (bicycle safety)
—National Institutes of Health (toxins and carcinogens in consumer products)
—National Institutes of Standards and Technology (product safety testing)
—Office of Consumer Affairs (coordination of numerous safety matters)
—Occupational Safety and Health Administration (data collection)
—Small Business Administration (small business concerns, implementation of CPSC Small Business Ombudsman program)

We work cooperatively with a large number of non-Federal groups to disseminate injury prevention information, gather injury data, develop safety standards, and ensure compliance with safety regulations, corrective actions, and recalls. These groups include:

—American Academy of Pediatrics
—American Association of Retired Persons
—American Nurses Association
—American Red Cross
—Association of Food and Drug Officials
—Better Business Bureau
—Businesses (such as Gerber Foods who is co-sponsoring the Baby Safety Shower effort)
—Coalition for Consumer Health and Safety

—Consumer Federation of America
—Dana Alliance for Brain Initiatives
—Danny Foundation
—Defense Research Institute (Defense attorneys)
—D.C. Bar Association
—International Association of Chiefs of Police
—National Association of Consumer Agency Administrators
—National Consumers League
—National Safety Council
—National Safe Kids Campaign
—National 4-H Council
—Salvation Army
—Snell Foundation (Bicycle Helmets)
—Society of Academic Emergency Medicine
—State Attorneys Generals
—State and local coroners, medical examiners, health departments, and consumer protection offices
—Trade Associations (Outdoor Power Equipment Institute; Coalition for Automatic Garage Door Openers, Gas Water Heater Association, Toy Manufacturers of America, etc.)
—Voluntary product standard setting organizations (ASTM; the American National Standards Association; Underwriters Laboratories; National Electrical Code and Building Code groups)

Senator BOND. I have to step out very briefly to meet with some constituents. I am going to ask that Senator Mikulski continue this hearing.

Senator MIKULSKI. And if I am done?

Senator BOND. I will be back shortly. I have some more questions. This will be very brief.

If you will forgive me, I will turn the gavel over to you.

Senator MIKULSKI [presiding]. Ms. Brown, have you had any involvement in the air bag controversy?

Ms. BROWN. No, we have not.

Senator MIKULSKI. Has anyone called you—let's wait for the bells to finish ringing.

[Pause.]

AIR BAG SAFETY

Senator MIKULSKI. Has the Department of Transportation contacted you on the air bag issue?

Ms. BROWN. We have had some directives from them about what they are doing, just information.

Senator MIKULSKI. Well, you see, nobody knows what they are doing. This is a very prickly situation. There is a great deal of concern about the safety of air bags. You have just indicated the concern about the special risks to children in the home. But there is a special risk in that home on wheels, called an automobile. Given commuters and day care every day, our little kids spend a lot of time in cars. We are finding that they are at risk, either from their child seats, et cetera, and now the air bags. There is the air bags controversy not only for what it means to children but what it means to, essentially, people my size, and where that air bag releases, hits you, and so on.

There is a great deal of confusion, uncertainty, and apprehension about what the Department of Transportation is doing. I am not blaming this on you, of course.

Ms. BROWN. It is not in our jurisdiction.

Senator MIKULSKI. But you are the Consumer Product Safety Commission with incredible expertise and really significant data. Your database I think should not be minimized because it contains risk based information and lots of ideas even for the private sector to improve itself.

My question is this. Given that, do you know anything about this? Does your agency have any data on the air bag controversy? Do we know where the risks are?

It would seem to me that you, you meaning your agency, would play a significant role. First of all, you probably know more about what happens to children other than pediatricians and parents. Am I right in that?

Ms. BROWN. Absolutely. You are.

Senator MIKULSKI. We had that marvelous conversation on playground equipment.

Ms. BROWN. It is both my area of expertise, coming into the agency as a child safety expert, and, of course, what our agency has concentrated on.

The problem with air bags or with anything in cars is it is not legally within our jurisdiction. However, our very excellent data, the NEISS system, which gets reports of hospital emergency room injuries every day, has done work for the National Highway Traffic Safety Administration on motor vehicle injuries. So they do use our data.

But we are not involved in the air bag controversy per se. Many people call me, Senator Mikulski, because I, too, am small, and they ask me what are you doing in your own car.

I, therefore, did my own personal, little survey and told people that you have to be at least 10 inches away from your air bag in your steering wheel. I also had found out some information on how to get extenders on pedals. That I just did as something personal to help my other short friends.

But this is an area that is very serious and I do know that there is a lot of concern out in the Nation. We specifically do collect air bag data specifically for NHTSA.

CPSC SHOULD WORK WITH DOT

Senator MIKULSKI. Ms. Brown, I am going to ask you because of the confidence I have in your agency and in your considerable database, to reach out to Secretary Slater. We have to really deal with this air bag controversy.

I am glad people know that they can call you. I go to senior citizen meetings and they ask me the same question, partly because I have the same personal geography, so to speak, as they do. But it shouldn't be member-to-constituency groups of 30 people only. I am absolutely convinced that the Department of Transportation has not brought in the total expertise that is available within its own Government.

I know that Secretary Slater, I hope, will be moving on this.

I am going to really recommend that you call Secretary Slater and that you have a list of all the agencies that have been involved in the subject of children—and there are also parallels to frail elderly or the short elderly—that could be used here, and that you recommend whatever task force they have that they use the best

information. Let's get out there with this information. It could be a new line of commercial products, exactly as you said. People may laugh about a pedal extender, but if you are 5 foot 2 inches and automobiles are built for people structured like Clint Eastwood, it gets to be very difficult for us.

I don't want to turn this into an air bag hearing, but I am deeply concerned about the sluggish way we are moving toward a relationship with the private sector and the consumers on this very significant issue, and perhaps even about talking about additional consumer products that would enable people to be more safe. Let me include here also the information on where do you put your baby's car seat—all of those kinds of things. Right now, if we have a driving grannie, then maybe grannie needs to be in the back seat.

I could go on and on here.

Ms. BROWN. Senator, I did want to mention also that we have asked for funds to do some anthropometric work. That sounds exotic. But what it really is is the measurement of children. More work to upgrade this would be very helpful to NHTSA in moving forward to do some greater calculations on car seats. Education is fine, but I think you've hit it on the head. In every field of products, it is very important to have as much as possible safety built into the product.

Senator MIKULSKI. From what I understand from the private sector, particularly those involved in the automobile industry, they are waiting for the Department of Transportation to give them some guidance on the direction in which they want to go.

I will tell you what I fear—the wholesale dismantling of, in particular, passenger air bags out of fear rather than out of science and out of technology. I truly believe the genius of the American private sector for both liability reasons as well as good citizenship, and ultimately profit, to be able to come up with solutions. But right now they need the guidance of DOT. Knowing what you all know about children, I think it would be enormously important for there to be a task force. It is disturbing to me that with DOT there is not a relationship on this issue.

Ms. BROWN. I'll call Secretary Slater this afternoon.

Senator MIKULSKI. Thank you very much and good luck with that.

Again, many, many thanks.

CONSUMER'S RESOURCE HANDBOOK

Senator BOND [presiding]. Thank you, Senator Mikulski.

Director Nasif, in 1997, the Congress gave the CIC the responsibility for producing the Consumer's Resource Handbook. Can you give us an estimate of the resources you might require to produce the report in fiscal year 1998 if Congress should decide to maintain responsibility for the handbook at CIC?

Ms. NASIF. The President's budget does provide for the transferring back to the Office of Consumer Affairs responsibility for the Consumer's Resource Handbook for fiscal year 1998. It is my understanding that the resources required, whether by OCA or by the Consumer Information Center, would be in the neighborhood of about $1.50 per publication. I believe the estimate for printing would be under $1. The estimated cost for CIC distribution is about

$.54. So if 250,000 were produced and distributed, it would be about $400,000 for the total cost.

In the past, OCA has been very successful in leveraging the support of the consumer community and other Federal agencies as well as the private sector in helping to cover the costs of the Consumer's Resource Handbook. Traditionally, what is done is that the committee provides a foundation of funding for the Consumer's Resource Handbook and then the Director of the Office of Consumer Affairs invites other Federal agencies, as well as corporate and other private sector organizations, to contribute resources to cover the costs of the publication.

So it really is a very joint effort in coming up with the funds to successfully print and distribute the handbook.

DISSEMINATING INFORMATION ELECTRONICALLY

Senator BOND. Can consumers order publications from the CIC web site? Do you see a demand for this? Do you see a day when you would move to distributing all of CIC's publications electronically?

Ms. NASIF. Currently we are working toward consumers being able to order right off our web site, and we are actually working with the Government Printing Office to make it a reality. About 50 percent of the publications in the CIC system are actually GPO sales documents. So it is not something that CIC can proceed ahead with on our own. But we are working with them.

GPO is putting into place an interactive system so that the public can order from their web site. As soon as they have perfected and debugged that system, we will work to have it applied to CIC in the Pueblo facility.

Of course, the main concern of all of us interested in electronic commerce is maintaining the privacy and the confidentiality of credit card information, which must go through the Internet web site.

We are fortunate that we are part of the General Services Administration because the agency is a leader in the emerging technologies that do safeguard that kind of personal information. So we will be working within GSA as well.

As far as whether the day will come when all consumers will be ordering from the web site as opposed to writing to Pueblo, I don't think so. Given the explosive growth of the Internet and especially the World Wide Web, it seems that certainly this country is going down that path. However, we are totally committed to maintaining our print program because we know that the majority of Americans depend on printed publications to get their information.

So we are looking forward to maintaining a dual track and keeping both programs going.

Senator BOND. Well, as long as this consumer is still around, there will be demand for the printed material.

Senator MIKULSKI. And with big print. [Laughter.]

Senator BOND. Yes; maybe the next generation will be all electronic, but not me.

Ms. NASIF. The day will come we are told.

Senator BOND. I don't believe that.

Ms. NASIF. I know I am not ready for it. I am holding on to those publications as best I can.

Senator BOND. Thank you very much, Director Nasif.

USOCA HELPLINE DATABASE

Director Byrne, one of the things, obviously, where I have already indicated my concern is for the duplication of effort. I previously served as a consumer affairs counsel in the attorney general's office. It seems that every State has at least one, if not several, entities that are providing consumer information and warning. I happen to know of a man who was one of the unfortunate ones who managed to get burned twice by the Nigerian scam, a man who had some money that he no longer has, but he had enough that he was still hit with it, indeed hit twice.

Obviously we cannot stop all scams. We have not gotten the message out. To what extent do you work with States and others who have the same responsibility you do?

Ms. BYRNE. Mr. Chairman, last March Money magazine did a compendium of all the State and local government efforts in consumer protection and found that there had been, over the last several years, a 60-percent cut in State and local offices in their efforts.

One of our jobs is in just taking up the slack. What we find in the calls that we are getting is that people don't know where to turn. Their local offices have sometimes been closed down. Their 800 numbers have been disconnected. We often tell them to call their attorney general because they don't know where to turn.

Oftentimes with these 1–800 numbers and the other agencies that are available, the consumer finds himself in Dante's third ring of hell. They push from voice-mail to voice-mail without ever getting a real person on the line. All they needed was a simple question answered.

We hope that we provide that kind of answer, that kind of help to consumers because what we are finding is that we are not getting the kind of coverage that we would hope in State and local governments.

Senator BOND. I think some of us in Congress are getting those calls as well.

MEASURING OCA'S EFFECTIVENESS

Is there any measurement or any impact that you can identify that your agency has that others do not have? When you are providing information, I know it is difficult to determine what impact you are having. But have you developed any means of measuring the impact of your agency?

Ms. BYRNE. One of the things we have implemented with the HelpLine is a database that we can track people and how they are getting responded to. If we refer them to another agency, what was the response from that other agency?

As the Special Assistant to the President, besides being the Director of the Office of Consumer Affairs, I head up the Consumer Affairs Council for all the Federal agencies and all their consumer components. I feed that information back to them so that they'll know if their agency has been doing a good job.

We can measure now the outcomes which we were not able to do prior to my arrival, the outcomes of these calls that are being made. How many people actually got their money back? How many people actually got their question answered? How many people actually avoided a scam because that is the data that we are now keeping that we were not keeping 3 months ago.

Senator BOND. We would be interested to see that information.

But isn't the HelpLine duplicative of the GSA's Federal Information Center?

Ms. BYRNE. Mr. Chairman, when I served in Congress, I thought that they were the same thing. I really was not clear in my own mind what each did. But what I find right now is that the Federal Information Center is referring calls to us because they don't know what to do with them.

Congressional offices are calling us because they don't know where else to turn. Also consumers are calling us because they don't know where else to turn.

It is different to be a vocal yellow pages, if you will, for Federal agencies than it is to give help. It is my understanding that the Federal Information Service is a vocalized yellow pages for Federal agencies. If you know where you are going, you can get the right number.

But most people, when they call for help, don't know who to call. They are swimming through the alphabet soup of Government agencies.

Senator BOND. The FIC I understand has a staff of over 100 personnel who are supposed to assist citizens with consumer problems utilizing the Consumer Resource Handbook. Are they not doing the job?

Ms. BYRNE. We have in our agency, in the Office of Consumer Affairs, over 25 to 30 years experience in every imaginable consumer issue you can think of. To have that kind of expertise willing to talk to consumers is much different than just trying to give somebody a phone number.

I don't think the Federal Information Center is as equipped, just through lack of experience, to deal with these consumer inquiries. We have a very specific task.

[The information follows:]

U.S. GENERAL SERVICES ADMINISTRATION FEDERAL INFORMATION CENTER

PROVIDING SERVICE TO CITIZENS AND GOVERNMENT AGENCIES

INTRODUCTION

Established in 1966, the Federal Information Center (FIC) is a single point of contact for people who have questions about Federal agencies, programs, and services. The FIC currently responds to about 2 million calls per year via its nationwide, toll-free number: 800–688–9889 (800–326–2996 for TTY users). The FIC is open for public inquiries from 9 a.m. to 8 p.m., eastern time, Monday through Friday, except Federal holidays.

The FIC program is operated by a contractor that maintains the call center in Cumberland, Maryland, and uses about 80 staff-years to accomplish its tasks. The program's annual budget is about $3.2 million, or approximately $1.50 per call: This includes all contractor expenses, payments to FTS2000 for the '800' service, and Government support and oversight.

SERVICE TO CITIZENS

The information specialists either answer directly, refer the caller to the correct office, or research the inquiry to provide a suitable response.

The most frequent public inquiries have to do with workplace issues (safety, discrimination, wages, etc.), State-government matters, immigration and naturalization, Federal taxes, Federal employment, savings bonds, Government publications, housing-related concerns, FCC matters, and disaster assistance. Many other inquiries relate to such consumer matters as product safety and reliability, advertising, food products, banking, and motor vehicles.

The metropolitan areas from which the largest number of telephone calls come are Los Angeles, New York, Miami, Chicago, Atlanta, Dallas/Fort Worth, Houston, San Francisco, San Diego, and Tampa/St. Petersburg.

The staff responds to 2–3 inquiries a day from Congressional offices who call for their constituents.

Citizens may discuss their inquiries with senior staff members who have a combined total of decades of consumer contact and research ability. Citizens usually start their inquiries by talking to junior staff members who have been trained to differentiate between calls they should refer to the senior staff members and those they should answer themselves.

A SAMPLING OF SPECIFIC SERVICES TO OTHER AGENCIES

*Copyright Office, Library of Congress.*—Since about 1975, have distributed copyright forms to individuals and answered basic questions about copyrights. In fact, the FIC distributes more forms to individuals than the Copyright Office itself.

*Bureau of Land Management, Department of the Interior.*—Since about 1980, have assisted in the dissemination of information about the wild horse and burro program.

*U.S. Marshals Service, Department of Justice.*—Started partnership in July 1995 to inform the public about acquiring property seized by law enforcement agencies. In December 1996, expanded partnership by including GSA's Consumer Information Center.

*Passport Office, Department of State.*—In 1995 and 1996, expanded existing level of expertise on passport matters and responded to passport inquiries referred from the New York, Miami, and Seattle passport offices.

*Authentication Office, Department of State.*—Beginning in November 1996, expanded the assistance available to persons wanting information on certifying documents.

*Consumer Information Center, General Services Administration.*—Have assisted in the distribution of the Consumer Information Catalog since 1970. Beginning in January 1997, received requests for the Catalog on a separate toll-free telephone number.

*Travel and Transportation Policy, General Services Administration.*—Starting in November 1996, have served as the main source for print or electronic copies of the per diem rates issued by GSA.

*U.S. Forest Service, Department of Agriculture.*—In late summer of 1995, removed excess workload from their campground reservation line by answering callers who were requesting information instead of wanting to make reservations.

REFERENCE MATERIALS IN USE AT THE FIC

Principal reference tool is the FIC's own electronic data base, which lists more than 100,000 points of contact (telephone numbers, addresses, electronic access) by agency and subject. The data base also includes the Catalog of Federal Domestic Assistance and many agency fact sheets. GSA and the FIC contractor are working with the Government Printing Office to place the FIC's data base on CD–ROM, sell it to the public, and distribute it to all Government Depository Libraries.

Printed periodicals such as the Federal Register and the Code of Federal Regulations.

Printed agency materials such as the Consumer's Resource Handbook, the Budget of the United States Government, and agency telephone directories.

Printed materials from private sources such as the Encyclopedia of Associations; directories of key officials in Federal, State, and local governments; and directories that list foreign travel information.

Regular and frequent use of government and private information accessed through the World Wide Web.

Senator BOND. But you have had this HelpLine for how long, 2 years?

Ms. BYRNE. Yes, sir.

CONSUMER RESOURCE HANDBOOK

Senator BOND. You are proposing to expand substantially the 1998 edition of the Consumer Resource Handbook. Why are you doing that? What precisely do you have in mind? What is the precise cost and who will pay the additional mailing costs?

Ms. BYRNE. We have proposed that we increase the number of printings for the Consumer Handbook, that we focus more on how people can get their questions answered through e-mail, through web sites. We have a whole, new, growing area of complaints, which is hardware. People's printers, people's computers don't work right. The help lines that are put up by these companies are not responsive.

So we need to focus in on what is happening in the marketplace. That is our job. So we are going to expand those sections.

Also there is consumer debt, how to avoid bankruptcy, the difference between a debit card and a credit card—this last is causing a great deal of confusion in the marketplace right now. These are areas that we want to highlight and expand in the handbook.

We do it by asking other agencies who have interests here to help us with this. We have asked the Securities and Exchange Commission, through their efforts on decreasing consumer debt, to help us with those sections.

This is a cooperative effort. But because we have been in the business for so long we know where to go to get the help within the Government. We also have a lot of support within industry and the marketplace in this product.

So they are willing to help with the costs.

Senator BOND. Do you accept corporate contributions for this?

Ms. BYRNE. We have a gift fund, as you know, ordinarily, and we would accept corporate help in producing and printing the book.

USOCA TRAVEL FUND FOR FISCAL YEAR 1998

Senator BOND. Your testimony refers to the OCA's role in representing U.S. consumers in international fora. What international travel is planned for fiscal year 1997 and fiscal year 1998 and at what cost?

Ms. BYRNE. We have domestic travel to do seminars and town meetings at the cost of about $10,000 for the entire year. We have two international fora in which we participate, which is OECD. Right now we are working on international parameters for electronic commerce, so that when people step into this brave, new world of the Internet that we all think is coming, they will have a sense of security, trust, and safety about it.

Right now, on the world marketplace that is not true. So we are looking at what we can do through these various mechanisms to enhance consumer safety in electronic commerce.

Senator BOND. So what would be the cost of that?

Ms. BYRNE. That is $10,000 also. We are looking at like $20,000 in travel.

Senator BOND. OK. Thank you.

Senator Mikulski, have you any further questions?

Senator MIKULSKI. No, Mr. Chairman. I look forward to working with our witnesses.

Senator BOND. All right. Thank you very much.

ADDITIONAL COMMITTEE QUESTIONS

Our thanks to each of you for presenting your testimony. We appreciate it and we look forward to working with you all in the months to come.

[The following questions were not asked at the hearing, but were submitted to the Office for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR BOND

*Question*. How much are you spending on the HelpLine? Are the costs of the calls being paid for by the White House, or OCA?

Answer. Calls to the National Consumer HelpLine through the White House telephone grid average $1,100 per month or a cost of $0.08 per minute based on the rate which was negotiated for all national 800 number lines serviced under the carrier Sprint. The HelpLine is currently staffed four hours daily by full-time staffers on a rotating basis, for an average total of 2.5 FTE's. All costs associated with the HelpLine are paid with funds appropriated to USOCA.

*Question*. OCA plans to expand substantially the 1998 edition of the Consumer Resource Handbook, Why is an expansion necessary, who has suggested you do so, what precisely do you have in mind, and what is the proposed cost? What will be the additional mailing cost? Do you have plans to reduce mailing costs, for example by using newspaper-weight paper?

Answer. The next edition of the Consumer Resource Handbook produced by USOCA will expand its Consumer Tips section to include information on dealing with child care as a consumer issue, more specific information on car leasing, home based businesses, investing and pension protection. Additional directory listings for computer and computer software companies will be included. E-mail addresses will be added to all listings when available. We will delete out-of-date-information. The new listings are the suggestions from consumers, government agencies, and businesses. We do not anticipate a substantial increase in weight, therefore, the printing and mailing costs will be virtually the same as they have been for the last three fiscal years. Our mailing costs are controlled by CIC, but we continue to "shop" for the lowest price. The use of newspaper-weight paper had been tried in the past. USOCA received negative responses from the public because the Handbook is used as reference and needs to stand up to continued use.

*Question*. Last year, we learned that OCA discontinued using the Consumer Information Center to mail out the Consumer Resource Handbook, at a cost of $2.52 per copy more than what it would cost using CIC. In fiscal year 1998, do you intend to use CIC to mail out the Handbook should the Congress agree that OCA retain responsibility for producing the Handbook?

Answer. USOCA does plan to continue to use the Consumer Information Center in fiscal year 1998, as long as they can provide us with the lowest audited mailing prices.

USOCA mails a few thousand copies at the first class rate in response to requests from Congress, Governors and Lt. Governors, Attorneys General, district offices of Congressmen and Senators and other officials, and corporate and community offices when they request rush delivery. This special service has been provided since Mrs. Virginia Knauer was the USOCA Director under president Reagan.

*Question*. OCA has the authority to accept corporate contributions for the Consumer Resource Handbook. How much do you plan to receive in corporate contributions in fiscal year 1998? What did the contributions total in fiscal year 1996?

Answer. Last September Congress eliminated USOCA's gift acceptance authority in the Omnibus Appropriations Bill. Currently, USOCA is in the process of regaining its gift acceptance authority through the President's Supplemental Appropriations Bill. When USOCA receives its gift acceptance authority USOCA anticipates approximately $100,000 from private sources.

USOCA received $2,000 from private sources for the Consumer Resource Handbook in fiscal year 1996, before the gift acceptance authority expired. These monies cannot be spent until the gift authority is restored. Non-public funds were used to sponsor National Consumer's Week events around the country totaling approxi-

mately $25,000. USOCA utilizes in-kind contributions from various consumer organizations and private sources in partnership for consumer education events and conferences.

*Question*. Your budget indicated you plan to revive the Consumer Newsletter. How much will this cost, and why is reviving this necessary?

Answer. USOCA has over 10,000 names and addresses of grassroots consumer groups; national, state and local consumer organizations; businesses; government; and interested parties in its newsletter database. The Consumer Newsletter fulfills USOCA's mission by informing, educating and warning interested parties about issues and events they need to be aware of. In addition, consumers often want to know how USOCA views an issue, what other Federal agencies are doing about a particular issue and what's new on the consumer horizon. The Consumer Newsletter serves this purpose and helps reduce duplication of effort by other agencies. The estimated cost for a quarterly newsletter is approximately $30,000 per year.

Should you require additional information please let us know. We will be more than happy to assist you.

## SUBCOMMITTEE RECESS

Senator BOND. This hearing is recessed.

[Whereupon, at 10:30 a.m., Tuesday, March 11, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

# DEPARTMENTS OF VETERANS AFFAIRS AND HOUSING AND URBAN DEVELOPMENT AND INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1998

---

**TUESDAY, MARCH 18, 1997**

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, DC.*

The subcommittee met at 9:34 a.m., in room SD–562, Dirksen Senate Office Building, Hon. Christopher S. Bond (chairman) presiding.

Present: Senators Bond, Campbell, Mikulski, and Boxer.

## FEDERAL EMERGENCY MANAGEMENT AGENCY

**STATEMENT OF JAMES L. WITT, DIRECTOR**

**ACCOMPANIED BY:**
**GARY D. JOHNSON, CHIEF FINANCIAL OFFICER**
**GEORGE OPFER, INSPECTOR GENERAL**

### OPENING STATEMENT OF CHRISTOPHER BOND

Senator BOND. Good morning. The subcommittee hearing will come to order.

The subcommittee meets today to review the budget request of the Federal Emergency Management Agency, and we are pleased to welcome the Director, James Lee Witt, and his team. Welcome, Mr. Witt. We appreciate all the work that FEMA has done to respond quickly to the most recent spate of disasters. As we all know, there were devastating tornadoes, flooding along the Ohio River, something we know too well just west of the Mississippi, and in the Northwest. I know that you personally have visited a number of the disaster areas. Our hearts and our thoughts go out to the victims of these disasters and we pray for the speedy recovery of their communities.

FEMA is requesting a 1998 budget of $3.2 billion, of which $374 million would fund the operating programs, $100 million would fund the emergency food and shelter program, and $2.7 billion would fund the disaster relief account. The amount requested for the operating programs represents a slight reduction below the current year, while the disaster program would increase $1.4 billion more than the current year appropriation.

While FEMA's responsiveness is commendable, I do not think it has been balanced with fiscal responsibility. I continue to be very

troubled by the management of FEMA's multibillion dollar disaster relief fund, which has never been audited, and I am very concerned about the request that is pending before the committee. Currently FEMA has more than 500 open disasters on the books dating back to 1989 with costs totaling $22 billion. More than $4.5 billion remain to be obligated for these open disasters and this does not include the costs of the most recent Ohio flooding disasters and the tornadoes. This is a very significant amount of expenditures.

The number of major disaster declarations in the 1992–96 period has increased 54 percent above the preceding 5-year period and FEMA's calculation of 5-year historical average cost of disaster relief for fiscal year 1998, excluding the Northridge earthquake, is $2.3 billion, an increase of 28 percent over last year's 5-year average of $1.8 billion.

Now, FEMA has acknowledged that the escalation in cost is due not only to the increase in large-scale disasters, but also because "The scope of Federal disaster assistance has expanded, the Federal role and response has expanded considerably, and State and local governments are increasingly turning to the Federal Government for assistance."

It seemed to me that FEMA has significant mission creep. It is no longer simply to come in when States and local governments are overwhelmed, which was the intent of the Stafford Act. Indeed, FEMA itself has said, "The current system of disaster relief tends to discourage States and local governments from assuming primary responsibility for initiating appropriate mitigation, preparedness, response, and recovery measures before a disaster strikes."

And FEMA's role seems to be forever expanding, illustrated by the spate of disaster declarations for snow removal in the last 5 years. There have been no snow disasters declared from 1979 to 1993, some 14 years, and there have been calls for FEMA to reimburse the State of New York for costs related to the TWA disaster.

To my knowledge, the disaster relief program is the only program in the Federal Government that does not have to consider fiscal constraints whatsoever. FEMA's other programs do not compete with this program for funding, so there is no incentive within the agency to exercise prudent stewardship of this fund.

When disaster relief funds have fallen short, Congress has responded quickly time and again to FEMA's request for additional funds in an effort to meet the needs of disaster victims expeditiously, and to provide this aid we have slashed low income housing and other programs to offset the costs. We have cut other VA-HUD programs totaling $8 billion under my chairmanship to pay for disaster assistance in the past 2 years. Yet, we have learned that some of these funds have gone to such questionable projects as golf courses and the planting of shrubbery.

Recently FEMA was, as we learned from the news media, considering expending $500,000 to replace a bottle village, which some have named folk art and others have called an eyesore, damaged in the Northridge earthquake and eligible for FEMA funding since it happened to be placed on the Register of Historic Places. I was glad to learn that Friday you made the right decision and decided against funding this project.

Following the Northridge earthquake, about $400 million has gone to one university, UCLA, clearly an institution with strong revenue generating capabilities. We need to review whether we can continue to make such expenditures in this era of belt tightening.

We have learned about some of these expenditures through inspector general's reports and press accounts since FEMA budgets do not provide documentation beyond very broad categories of the specific projects being funded. In fact, FEMA centrally has no information on the numbers, costs, or status of the public assistance projects currently underway. There are literally thousands of such projects underway.

The Agency's responsiveness to disasters is truly laudable, and I join with others who commend you, Mr. Witt, and the Agency for moving quickly. But suggestions and even directives from Congress to submit proposals to reform this program to be fiscally responsible have gone unheeded or have apparently been treated someplace in the administration as low priority at best.

In September 1993, the administration's "National Performance Review" report called for, by March 1995, a comprehensive plan, including proposed executive orders and legislation to develop objective disaster declaration criteria and comprehensive Federal policies to reduce the Federal costs of disaster assistance. To my knowledge, this commitment has been ignored.

A series of GAO and inspector general reports have been issued over the past 2 years at the request of this committee. They have outlined a number of options for reducing disaster relief costs, including establishing more explicit and stringent criteria for providing Federal disaster assistance, eliminating public assistance grants for revenue producing private nonprofits, shortening the appeals process from three levels to one, making marinas, golf courses, trees, and shrubs, except in parks, ineligible, and clarifying the criteria related to the standards to which damaged facilities should be restored. For the most part, these recommendations have not been acted upon.

Our efforts time and again to get this Agency to propose plans for implementing those recommendations and reducing excessive costs have been stonewalled. We discussed these issues in the hearings for the past 2 years. We have been through this before. This is not new. This is not a surprise. We included a requirement in the fiscal year 1997 committee report for a proposal for reform, including a request for necessary legislation, if that is required, and we included a statutory requirement in the fiscal year 1997 VA-HUD bill. To date, these directives have not been fully met.

Now, we received a draft report on March 12 which was a about 45 days late in response to the statutory requirement in the fiscal year 1997 VA-HUD bill for a plan to reduce disaster expenditure. The report is still in draft form. It falls short of the mark and it outlines options. That is not what we had in mind. You knew and we knew what the options were. We do not need to be told what the options are again. We want specific suggestions and recommendations.

In response to questions submitted at last year's hearing, you said:

FEMA is committed to implementing all the inspector general's recommendations in principle. We believe that our disaster criteria initiative, which will contain disaster payment thresholds, as well as declaration thresholds, will comprise the major portion of reforms called for by both the GAO and the FEMA inspector general and lay the foundation for substantial long-term Federal cost share reductions.

Now, the draft report is completely silent on the issue of disaster criteria. It does not propose an implementation plan for the inspector general's recommendations. It only repeats some of the options that the inspector general and the GAO have proposed in the past.

The report does not address the issue of State cost shares. While States are required to cost share in the disaster relief program, I understand FEMA does not enforce its own regulations and require cost shares to be put forth at the beginning of a project. Apparently the State of California has not appropriated one dime—one dime—to match the $5 billion in FEMA-funded projects. Because the cost share is not required up front, the State has little incentive to control and reduce costs.

In addition, last year we received testimony from the GAO that:

FEMA's criteria for determining the extent of permanent restoration for public facilities and for determining the eligibility of certain private nonprofit facilities are ambiguous. FEMA relies on States to ensure that expenditures are limited to eligible items.

Regrettably, I have seen absolutely no evidence that these massive loopholes have been closed.

While some management improvements have been made in such areas as centralizing processing, reconciling the disaster relief fund so it can be audited for the first time in fiscal year 1998, and other administrative reforms which have reduced costs marginally, the commitments that have been made to us and that we have directed you to fulfill to address the disaster criteria have not been met, and the really hard choices have not been made.

Let me be quite clear. I am a strong supporter of FEMA getting to a disaster site quickly and dispensing aid to needy individuals as soon as possible. I am a supporter of helping communities rebuild so they can get on with their lives. But I am not a supporter of using the disaster relief fund to gold-plate revenue generating facilities and to finance golf courses in wealthy communities. And I cannot condone fiscal irresponsibility.

Last year, at the suggestion and at the implied request of FEMA, we did go forward with some of the language that had been added in the Senate to limit disaster relief. Let me be quite clear, Mr. Witt. We expect you to come forth with a comprehensive plan. We want to know where it is, and if we do not have one in place by the time this bill comes out of committee, I will strongly consider working with my colleagues to implement our own system. Something has got to be done. You all have had a couple of years now since we started requesting and talking about this to come forward, and if you do not do it or at least suggest to us how it can be done, we may have to do it for you because the scope and the amount of these disaster requests is out of hand.

Now, I am also very concerned about the supplemental request that we understand the administration will be submitting. It is my understanding that FEMA currently anticipates requirements totaling $2.9 billion in fiscal year 1997. Yet, the administration will request about $1 billion, according to the latest rumors, of which

some portion would be in a contingency fund. How we will pay for the supplemental and the additional requirements coming due in fiscal year 1998 totaling some $5.9 billion will be an enormous challenge.

There are also very serious problems with the administration's proposals for funding future disasters through a contingency fund. Mr. Witt, this is nothing but a gimmick. I could not take that to the floor with a straight face. My colleagues rightly would pound me about the head, and we expect better from OMB and from FEMA. This is a very irresponsible fiscal gimmick. The proposal to treat these funds off budget is just not going to work. The Congress has made its position very clear.

The fiscal year 1998 5-year historical average annual cost to FEMA disaster relief is $2.3 billion. We know that close to this level of funds will be needed next year and these funds need to be budgeted.

In addition, the contingency fund concept gives entirely too much discretion to the administration to distribute these funds with virtually no oversight of Congress. I have been in the executive branch, and I would love to have a honey pot to go around and hand out money. It makes you feel good. People love you. You come in town with free money, and it is great. Love to do that. Nothing is more fun. Unfortunately, that is not how Government should work. There should be explicit standards and criteria. We do not have those.

We also have questions about the proposed $50 million predisaster mitigation fund you have requested. We have seen no details for this request or any proposal on how we would pay for it. Moreover, there is $1.4 billion in existing postdisaster hazard mitigation funds currently unobligated. So, there are significant questions about why States are not spending these funds and how the proposed new program would be more effective.

There are a number of very important issues to be addressed, including the status of the flood insurance fund, the level of Treasury borrowing in that program, the future of chemical stockpile emergency preparedness programs, and FEMA's progress in developing performance measures for the States through performance partnership agreements and assessing States' capabilities in disaster response.

In closing, Mr. Witt, you have earned well deserved accolades for the many improvements in FEMA's responsiveness in the last 4 years. You have done an excellent job personally and made great personal commitments to be there and to have your people on the ground, but the steps that we must take for fiscal responsibility are not there. They have got to be put in place, and I would hope that you would suggest to us and help us work out how they are put in place rather than have us do it a cappella because one way or the other, it is going to be done.

I am now going to turn to my distinguished ranking member, Senator Mikulski.

STATEMENT OF BARBARA MIKULSKI

Senator MIKULSKI. Thank you very much, Mr. Chairman.

I want to welcome FEMA Director James Lee Witt. I want to applaud your work with streamlining FEMA and making it a more effective and efficient Agency.

The chairman raises some very important fiscal questions, but I would like to go back to 5 years ago when FEMA itself was a disaster, when our readiness and our response was a national embarrassment. We were not ready in most States to respond to disaster. All 50 States were very uneven in their preparedness, and those often at most risk were the least prepared. We remember with great sadness what happened in Florida when the very nature of what occurred overwhelmed the capacity of even the Governor to estimate what damage that he had. Thanks to you, Mr. Witt, you then have made us fit for duty in readiness and response.

But I recall that there were three R's to what we had talked about for FEMA. It was called readiness, response, and rehab. The rehab now is what is being discussed by the chairman, and I believe that those are very serious concerns.

But I think we also need to note that it was under your leadership that many of the recommendations of the National Academy of Public Administration about how to improve FEMA in its work in saving lives and saving communities were followed. So, we thank you for implementation of the National Association of Public Administrators' recommendations about bringing down the artificial wall between the old cold war, civil defense approach and the new realities of a risk-based strategy.

I believe that FEMA does do what it was supposed to do, which is save lives and save communities. Now we are called upon, because we have now done the first two R's and done them very well, to focus on the third R which is rehabilitation, or, in some instances, reengineering. In other words, in communities that are most at risk for flood or hurricane, what are the things that could be done beforehand that would prevent future disaster funds for request.

I believe the chairman's concerns are valid and I think you would agree with them.

But thank you for the first two R's, readiness and response, saving lives, saving communities. Now we will move to the issues related to rehabilitation and reengineering, if you will, of those disaster-prone areas, and we will come back and talk about that.

I also want to talk about the issue of mission creep. I know that they are of concern to you, but I know that every time a disaster occurs, that FEMA is under tremendous pressure both from a Governor and its two Senators for you to show up, to be able to be there to provide disaster assistance. Everybody likes the photographs, the helicopters landing, going out there to show where people feel powerless, at least that our response is not.

I believe that that is where that is coming when we talk about the lack of matching funds and so on. I believe there needs to be work done with the National Governors Association really on what are clear triggers that bring you in and also a real commitment on their cost sharing.

The chairman's concerns are valid, but I believe you are placed under extraordinary pressure not only by the White House to respond with compassion and effectiveness, but by the Governor and

the two Senators in those areas to really be able to do that. So, I believe that much work needs to be done, but I do not believe the work to be done is a one-sided effort.

The other is this whole issue of what this committee has borne because FEMA is in it. We all recall after the tremendous problems in California, this subcommittee was called upon to fund the entire disaster relief and out of the HUD account. We never quite recovered from that in terms of our appropriations. Again, the chairman's concerns are quite valid, but I think we need to talk about not a honey pot, but really a specific way of having the resources that, therefore, are not charged against this committee.

I like the chairman am very reluctant to put big ticket items off budget. I would agree that it should not, but I am not quite sure what is the best thinking because we cannot appropriate for every disaster that might affect the United States of America.

I know Senator Glenn, when he chaired Government Ops, was looking at this. I would hope Government Ops would give us some recommendations as well as ours.

I believe Senator Bond is quite serious when he says if you do not come up with the recommendations, we will. I would prefer we could do it together and that we could do it not only with OMB but with the Governors because I think now is the time to say thank you for response, thank you for readiness. Let us now go on to the rehabilitation aspects, and most of all, the other R which is called fiscally responsible. I think then we will really have had a holistic approach to this.

Thank you and I look forward to talking with you about the national issues as well as some in Maryland.

GETTING GOVERNORS INVOLVED IN DISASTER PROGRAM CHANGES

Senator BOND. Thank you very much, Senator Mikulski.

I would agree with you that the Director and the Agency come under great pressure not only from the White House but from Governors and Senators. There is nothing like having a solid wall behind you to stiffen your back and help you say no if we can get Congress to act, in cooperation with the administration and the Governors, on specific criteria. It takes some of the pressure off of Mr. Witt and the Agency.

Senator MIKULSKI. That is right. Mr. Chairman, you were a Governor and by all accounts, a very excellent Governor. That is one of the reasons the people of Missouri sent you for your first term, and an excellent Senator why they sent you for your second term.

I really do think the Governors have to come in on this, and maybe you and I could actually meet with them as well.

Senator BOND. We will make a decision here that you and I will request of the National Governors Association their views on this. I will ask our staff to prepare that.

Senator MIKULSKI. I think that will be excellent.

Senator BOND. We will start with something, but we are really awaiting the word from the administration because you are the people who do it and you know how it works or does not work.

So, with that, forgive me for taking up some time. Let me turn to Senator Boxer. Good morning, Senator Boxer.

STATEMENT OF BARBARA BOXER

Senator BOXER. Good morning, Mr. Chairman. Good morning, Senator Mikulski, and good morning, James Lee Witt.

I want to say that I have come to know James Lee Witt almost too well and his wonderful staff. It seems that we pick ourselves up from one disaster and we have got another one in my magnificent State, having gone through so many of these, both as a Member of Congress where I had one terrible earthquake in San Francisco where we are still picking up, if you will, the pieces because FEMA at that time simply did not have the ability to respond.

I remember very well that when I came here, Mr. Chairman, the faith and trust in FEMA was almost nonexistent, and I have to say to James Lee Witt—and I know that not every single Senator is going to agree with you on every decision you make. No two people could agree on everything, and you and I have not agreed on everything either, of course, as I fight for my State. This is the natural course of events.

What you have done for your country is just fantastic because you have taken an Agency that was in the depths and you have brought it up and you have made people understand that we can respond with a sense of fairness and a sense of urgency and a sense of efficiency.

Mr. Chairman, I do not have a statement for you, but what I would like to do is respond to some of the issues that were raised, I understand, by you before I came in.

I want to say something about earthquakes in general, Mr. Chairman. You and I have experienced floods in our States and I have had that awful experience. Earthquakes are very different than any other disaster because the damage is not readily seen at first, and that is the reason why we have moving estimates. That is the reason why Governor Wilson has not yet made the match because we still do not have the final answer on the number. So, these things happen and they look strange, but I would urge you to realize that it is a very, very different thing.

If you look at the California Seismic Safety Commission, what they said about Northridge—and I will quote—"Much of the damage was hidden under fireproofing and finishes." So, you do not find out. You see a little crack. It does not look like anything and then you get in there and you realize the incredible damage.

Also, on UCLA, it is, in fact, a public supported university and it is a major medical center, so it is a public institution.

I would agree with you, Mr. Chairman. I voted for the McCain amendment to end the practice of funding golf courses and so on. I think we really need reform and I will join with you in doing that. You and I have gone through enough disasters to understand that we know who really needs the help and we want to be able to provide it.

First of all, I am so privileged to be with both of you. You are such leaders in this area, and I hope that as a result of my experience I can help you and I can work with you in making the reforms we need and still be able to respond to people in need.

With that, I want to say to you that what is very interesting in California now, people are talking in the flood-prone areas about

ways that they cannot rebuild in flood-prone areas. I think it is happening in California. People are realizing you just cannot keep going back and making people whole. We have to have policies here that recognize there are certain areas that you are never going to be able to secure from flooding and so on.

So, I am very pleased and privileged to be on this subcommittee. I want to work with all of you and James Lee Witt the best that I can. I want to thank you very much for this opportunity.

Senator BOND. Thank you very much, Senator Boxer. Certainly you have had the experience with disasters that exceeds that which we have had in our State, but we have had quite a bit of experience with it too. That is why we think the Agency is so important.

Now we will turn to the leader of that Agency with all the attention. Mr. Witt, welcome.

STATEMENT OF JAMES L. WITT

Mr. WITT. Mr. Chairman, members of the committee, thank you very much. I am pleased to be here with you this morning to discuss FEMA's appropriations. Also with me this morning is Gary Johnson, our Chief Financial Officer. I hope that together we can be responsive to your questions. We have a capable team behind us who can respond to any specific questions.

Each year it seems like we start out at appropriation hearings discussing where we have been and what we have been doing. Mr. Chairman, you briefly laid out what we have faced over the last few weeks. I do not think I have ever seen a January like the one we had this year. We had floods in the West, in the States of California, Washington, Oregon, Idaho, and Nevada. At the same period, we had blizzards in the Midwest, tornadoes in Alabama and Georgia, preceding the floods in Ohio, Indiana, West Virginia, Kentucky, and Tennessee, and tornadoes in Arkansas. We had 59 fatalities in this last round of disasters.

I will be brief so that we have time to answer your questions.

I think, Mr. Chairman, that you and the members of this committee have seen the difference that mitigation makes in a community that has been hit by a disaster. The reason that FEMA is requesting $50 million for the predisaster mitigation program is to try to bring the insurance industry and local and State governments into the fold to help us to eliminate and high-risk areas. The fact that every $1 we spend in the area of predisaster mitigation can save $2 in future taxpayer dollars is well documented. I think that we need to change the direction we are going as far as dealing with disaster costs.

I totally agree with your view that the costs of disasters have escalated and need to be controlled. We need to redefine what we fund and what we do not fund. We should target our funding to address the health and safety of individuals and communities. We will work with you and this committee, Mr. Chairman, to develop language for legislation in that area.

The idea of reducing risk is very prevalent. I have talked to many Governors, including Governor Voinovich of Ohio, just this past week, Governor Underwood of West Virginia, the Governor of Tennessee, other Governors at press conferences and those with whom we toured communities. They all support preventive meas-

ures to keep from repeating disaster costs in communities where we can mitigate that particular risk. I think that is the direction that we need to head in.

Disaster costs have escalated despite the fact that over the past 4 years, we have declared only 24 more disasters than during the previous administration. We have also denied 56 requests for disaster declarations during that time period.

Therefore, it is important that we look at the implementation of the disaster program and how we work with the States and local communities on predisaster programs. All of the staff and I recognize the need for a new direction, and we are working very diligently to make it happen.

PREPARED STATEMENT

I am very proud of what we have accomplished to date, including the cost-cutting measures that we have taken. We have been very, very busy, and I do not apologize for what we have not been able to do. We are making a difference in communities as they rebuild and in people's lives. I am very proud that we have been able to cut costs related to the application process. I am proud of FEMA and I am proud of the employees. They are very dedicated and they work very hard, Mr. Chairman.

[The statement follows:]

PREPARED STATEMENT OF JAMES L. WITT

Good morning Mr. Chairman, members of the subcommittee. I'm pleased to be with you this morning to discuss the appropriation needs of the Federal Emergency Management Agency (FEMA) for fiscal year 1998.

I am joined today by Gary Johnson, our Chief Financial Officer, and together I hope we can be responsive to any questions you might have regarding our request. Also with me are the rest of our executive management team who can help me in responding to specific questions, if needed.

It seems that each year we are talking about incredible events that we could never forecast. In the past it has been historic flooding in the Midwest, a huge earthquake in southern California, a tragic bombing in Oklahoma City, or any number of hurricanes that have devastated parts of our east coast with troubling frequency.

I mention all these events as ones we could not forecast. But just because we can't see an event coming doesn't mean we can't lessen its impact. We can make a difference. And it's my hope that in fiscal year 1997 and fiscal year 1998, we at FEMA will begin to suggest a new path we can take.

We need to do more, much more, from this day forward, to reduce the risks facing our communities. We can't stop an earthquake or a hurricane, but we can build better and stronger. We have to get this message across. We have to break this cycle.

Disasters are no longer unusual or singular events. Their frequency, and their degree of devastation, demand that we raise our own expectations about what we can do. We need to set higher standards in building our communities. We have to make our mission of protecting public health and safety a shared goal. We can do better. And we know that.

Yes, we do a great deal in the area of mitigation right now. Section 404 of the Stafford Act has been a great success in towns like Arnold, Missouri, Memphis, Tennessee and Miami, Florida. All of these places have suffered from devastating natural disasters and have undertaken mitigation measures to reduce the future risk to their communities. Actions including moving structures out of the floodplain, seismic retrofit of critical facilities and floodproofing of residences.

But we shouldn't have to wait for problems to happen. While some FEMA programs already have made significant strides in mitigation ranging from our work on building codes to the U.S. Fire Administration's leadership on the use of sprinkler systems, much of our most significant work in reducing risks can only be triggered by a disaster. Foresight, planning, intelligent preparedness work, cannot be

rewarded under our current disaster assistance program—nature has to force our hand.

The strong message of what communities can do to strengthen codes, to make schools and public facilities safer, to lessen the impact of these events, has to be heard outside of this committee room, outside of the walls of FEMA, outside of the emergency management community, and insurance roundtables.

The idea of reducing the risks has to enter the mainstream. No one knows better than the members of the appropriations subcommittees in each chamber, that the losses from recent disasters are neither small nor rare.

That is why we are seeking $50 million in pre-disaster mitigation funding to begin a program of forging coalitions to create disaster-resistant communities. And we do mean coalitions where everyone plays an important part.

If pre-disaster mitigation is considered "a FEMA program", then it's a failure. This has to be a program that leverages the resources and energy of other Federal agencies, States and local governments, and especially the private sector, and brings them in as partners. They have to recognize their stake in this; they too have to provide the leadership.

We believe many State and local governments are ready and willing to join us. The business community and the voluntary community are ready to join in. We think this program will demonstrate their commitment and resolve. It's my belief that this is the ultimate route for reducing disaster costs.

We must continue to be good stewards of the funds you provide for disaster response and recovery. We must continue to re-invent the ways we deliver assistance that help to save resources and provide better customer service.

But we also believe that pre-disaster mitigation, along with the enormous amount of post-disaster mitigation work we accomplish, is the path to increased safety and reduced costs. I hope you'll provide us the opportunity to continue these efforts.

The resources you have already provided have allowed us to begin to provide important tools to State and local governments to assess their risks and to begin to establish a framework for building, and retrofitting, smarter and safer:

—Just this month we have completed the initial development of the first nationally-applicable tool to estimate losses from a natural hazard (at this point, earthquakes, but we hope to make this an all-hazard system) and to demonstrate the impact of mitigation actions.

—This year we will complete and issue nationally-applicable technical guidelines for the seismic rehabilitation of existing buildings—this is critical. For example, the replacement cost for bridges averages about $135 per square foot, while the retrofitting for seismic strengthening averages about $38 per square foot.

—This year, in partnership with the U.S. Geological Survey (USGS), we will be issuing the 1997 update of the NEHRP (national earthquake hazard reduction program) recommended provisions for seismic regulations for new buildings. This update is incorporating information based on new USGS spectral response maps.

—And this year we will continue our partnership work in developing a proposed international building code. My visit to Kobe, Japan following that devastating earthquake in 1995 impressed upon me the need for international standards. We have much to share and we also have much to learn.

I have gone on at some length on the matter of mitigation, or risk reduction, because we at FEMA are not satisfied to pride ourselves on fast response or long-term recovery programs. We want to do less of that response and recovery business—and I hope every member of the committee will take this message back to your States and districts.

You can provide the kind of leadership that will put risk reduction into the mainstream, to make it a fundamental part of community development and community life.

This year we are asking for $2.4 billion for the disaster relief fund (DRF) to "clean up" all of our disaster requirements as we move into fiscal year 1998. That's a large sum, but it represents our estimate of the remaining costs of years of disaster activity. Such an appropriation would allow us to meet our commitments to hundreds of communities who are still recovering and rebuilding from the devastating impacts of disasters.

Congress has been generous in providing assistance for disaster relief. But we all realize that being locked in a culture of supplemental spending is not a prudent approach for any of us who work in this arena. For this reason the President's budget proposes that Congress appropriate $5.8 billion as a contingency fund for the emergency requirements for disasters and designate that amount as an emergency funding requirement.

These funds would be available only to the extent that the President designates them as emergency funding requirements and only 15 days after notifying Congress that the funds have been so designated. This approach is similar to that taken by Congress and the President in the Emergency Supplemental Appropriations Act of 1994, Public Law 103–211.

This proposal is designed to avoid the numerous emergency supplemental appropriations that historically occur each year and would support the six agencies, including FEMA, involved with significant disaster responsibilities.

I also want to report to you on the progress we have made in improving our disaster response and recovery programs. Since we met last year we have worked to implement the commitments we made to the committees. And we have taken actions on suggestions the committees have recommended.

One significant area of improvement has been our ability to manage more closely disasters from previous years. These are the disaster events that initially persisted due to their scope and complexity, but then remained open far too long. You may remember I told the committees that disaster close-out was a top priority for me because of the potential cost savings.

This effort is beginning to pay off. During the last year, FEMA closed out 16 disasters. Since February of 1994, we closed out 415 human services programs, resulting in a reconciliation of more than $1.8 billion to the disaster relief fund from disasters declared as long ago as fiscal year 1975. Of the $1.8 billion reconciled, over $400 million were returned to the disaster relief fund. This reduced the Federal Government's interest obligation accordingly.

Our use of our 1–800 Teleregistration System has greatly reduced our costs to take an application for assistance. Where our on-site costs used to average close to $60 per application, teleregistration has brought that down to $19 per application.

Along with, and as a result of our careful auditing practices, we have also been pursuing an aggressive debt collection process. Up to this point, we've collected close to $4 million in debts.

We have taken all of these steps because we are aware of the obligations that come with the large appropriations that have been entrusted to FEMA. And the cost savings in these areas are an important part of the Government-wide effort to achieve the President's goal of a balanced budget.

The recent draft report we sent to the committees on FEMA's improvements in financial management details the efforts we have made in grants management, nonspecific disaster spending and additional steps we have taken to prudently manage disaster funds.

We are streamlining our disaster relief procedures by proposing the elimination of one appeal level for the public assistance program. We are also making other procedural adjustments that will reduce costs now and in the out years.

In fact, this year we are undertaking a complete reengineering of our infrastructure system. We are looking at it from start to finish to determine what parts of our program make sense and what parts need to be changed. This comprehensive approach will result in further improvements and savings.

One of our logistics management initiatives has been the disaster information systems clearinghouse (DISC). The DISC deploys standard equipment packs to disaster field offices within 24 hours, recaptures the equipment after it is used at the disaster site, refurbishes and repacks it as necessary, and returns it to the inventory for the next disaster.

Since August of 1995 through January of this year, the DISC process has filled orders for more than 4,400 personal computers, 900 printers, 250 fax machines, and 2,800 cellular phones from disaster field offices. If this equipment had been bought new off the shelf the cost of just these four items, considered to be staples of the modern workplace, would have exceeded $10 million.

Concurrent with that work, and in response to the appropriations conference report, I convened an Agency-wide task force which has been reviewing all aspects of our work and exploring areas where we can cut costs. Because of the significance of this project, I wanted to have our partners at the State and local level play a role in developing this report.

But we can give you a few examples of some of the options we are considering with our State and local partners both in terms of regulatory changes at FEMA and legislative changes to the Stafford Act. Some of the regulatory options would propose to:

—Eliminate eligibility of publicly owned facilities which are rented out to private enterprise for revenue generation, including sports arenas, commercial space, or industrial parks.

—Eliminate funding for tree and shrub replacement. FEMA currently has an interim policy that prohibits funding replacement of trees and shrubs on other-

wise eligible public properties. A formal policy will be circulated to the States for review.

—Eliminate building contents or cultural objects. Eliminate assistance for cultural and decorative objects such as paintings, statues, antique airplanes or trains or fire trucks, etc.

The legislative options discussed in our report would:

—Abolish or restructure the community disaster loan (CDL) program. Although used infrequently, the CDL often becomes a grant rather than a loan because of the forgiveness feature. In fact, $4 has been forgiven for every $1 collected.

—Eliminate funding for revenue-producing publicly owned recreational facilities such as yacht harbors, golf courses, and stadiums.

—Require that all private non-profit (PNP's) applicants go through the Small Business Administration (SBA) loan program prior to applying for public assistance. This would encourage PNP's to mitigate potential disaster losses and equalize the treatment of private and public utilities.

—Eliminate funding for rural utilities service electrical and utility cooperatives due to their commercial nature and the availability of rural utilities service or Small Business Administration loans. Since the cooperatives are eligible to obtain loans, they should be required to do so first, rather than automatically qualifying for a grant.

These are all options that should contribute to an informed public dialogue on disaster costs. But it should be remembered that the report has one strong conclusion that harkens back to the mitigation message:

> If the only solutions implemented involve shifting the burden within the society rather than a reduction of actual risk of loss, everyone—taxpayers, insurance policy holders, municipal bonds, etc. will lose.

Moving from theory to the all too real world, it has, once again, been a very difficult year in natural disasters. The hurricane season was severe once again, with Hurricane Fran being especially widespread in its impact. And we also experienced more State-wide flooding in California and an extremely harsh winter in the Northwest that compounded problems from the flooding of the previous year.

There are other commitments from last year that we have kept that I would like to review. As promised last year, we have published for comment a proposed rule addressing eligible costs for snow emergencies. Based on the comments we have received and the recent experiences in several States, we will likely publish a new proposed rule in the near future.

Fortunately, this winter has not been as severe in the East as the last, but we have had important snow declarations in Minnesota and the Dakotas that have been, perhaps, even more extreme.

In these snow declarations we have maintained our policy of only clearing primary routes to protect public health and safety. We have also worked to hold States more accountable for their work in disaster preparedness and response and recovery work. The steps they have taken in self-assessment of their programs is helping to establish a clear base-line of capabilities at the State level.

Additionally, our new budget will, as in fiscal year 1997, continue to support State Hazard Mitigation Officers. Again, this consistency will help to bring the emphasis on risk reduction into the mainstream. And this work is taking place within the context of the Performance Partnership Agreement (PPA). The PPA has streamlined our assistance to States and has simplified our processes and encouraged State initiatives.

I will also continue to work with EPA and DOT to have all of us work closer in the area of hazardous materials. The more we can mesh our efforts, perhaps even consolidating our funding streams, the better it will be for the States and the front line responders.

My earlier discussion on building hazard-resistant communities should sound familiar in some respects, because it is building upon another Governmental success story: the National Flood Insurance Program.

Both the compliance provisions of the Flood Reform Act of 1994, and our own "Cover America" marketing campaign have moved us up to nearly 3.5 million policies in place.

The coming year will bring forth more information, from studies that the reform act mandated, to tell us what we can do with rate structures, and what the impacts of any changes would be to communities and the program itself.

But even in a time of higher borrowing by the flood fund, it is important to ask what the Nation's resistance to risks and disasters would look like without the NFIP? It would mean no flood maps, little mitigation, weaker codes, bad zoning, more Federal disaster spending, and more private and public losses of all kinds.

The NFIP is, in microcosm, an example of risk reduction as a mainstream approach: policies that are sold by local agents, policies that are required by local lending institutions, and communities that enforce sound flood plain management in exchange for the availability of affordable flood insurance.

This budget for fiscal year 1998 also contains a request for $100 million for the Emergency Food and Shelter Program. At a time when great changes are affecting national social service programs it is vitally important that a supplemental program such as EFS, that assists the private non-profits ability to provide emergency help, be maintained at this level.

As with our other efforts, the EFS program encourages coalitions within communities and leverages funds to help people in greatest need.

I am also concerned with the health and safety of our employees nationwide and you will see line items that reflect this concern.

Throughout these constant challenges of hard work and long hours under the most difficult conditions, FEMA employees performed with dedication and grace. One of the most pleasant parts of my job is reading the customer service surveys that disaster applicants fill out. Their level of satisfaction is extraordinarily high, but it's the personal touches that grab my attention.

On many of these surveys, people take the time to tell us that not only was their service swift, but it was sympathetic and courteous. That people were treated with dignity. FEMA employees put a good and, I believe, true face on Government service. I'm very proud of that.

In summary, this year's budget is not a wish list, but operates within budgetary constraints. It is a prudent and sensible spending plan that looks to the future rather than holding on to the past. It has one message:

We can't go on as we have; from this day forward we have to start reducing the risks we face.

During my tenure at FEMA the appropriations committees have not simply provided us the resources to do our job, but have offered the encouragement and support that have heightened our morale and contributed to our success. On behalf of all the employees at FEMA, I thank you for that support.

I hope that in fiscal year 1998 we can continue that tradition.

Thank you for your time and attention. I'd be pleased to answer any questions you might have.

## STATUS OF DISASTER RELIEF FUND

Senator BOND. Thank you very much, Mr. Witt.

Let me turn to the status of the disaster relief fund first. What is the current balance in the disaster relief fund and when do you project the fund will be depleted?

Mr. JOHNSON. Mr. Chairman, as of last Friday the unobligated balance in the disaster relief fund was $2.295 billion. Without the assistance that is included in the supplemental request pending at the White House, we would project right now that we would be unable to meet obligations this year by about $442 million. Without the supplemental appropriation, we will be forced sometime this spring to revisit how we allocate our moneys for our public assistance type projects to ensure that we have dollars available to meet individual victims' needs.

Senator BOND. With almost $2.3 billion you would run out this spring?

Mr. JOHNSON. We estimate that by the end of the fiscal year, Mr. Chairman, we would be short $442 million to meet obligations against requirements. By spring, we would have to begin to adjust how we would allocate money to the open disasters to ensure that we have dollars available for immediate needs of victims.

Senator BOND. Mr. Witt, why are the current projections exceeding the projections contained in the congressional budget justification which showed a yearend carryover of $100 million? Are the most recent spate of disasters the reason?

Mr. WITT. I think so, yes, Mr. Chairman.

Senator BOND. It's not Northridge?

Mr. WITT. Yes, sir; partly.

Senator BOND. How much has that Northridge estimate gone up this year?

Mr. JOHNSON. Mr. Chairman since the budget submission was forwarded to you, the obligations and projections for Northridge went up about $200 million.

Senator BOND. What is required to meet the cost of all open disasters and those projected for the balance of the year? In other words, to wipe the slate clean, what is your best estimate of the total amount needed? And will the administration request this amount in the supplemental?

Mr. WITT. I believe, Mr. Chairman, it was $2.4 billion when the budget was submitted.

Senator BOND. $2.4 billion?

Mr. WITT. Yes, sir.

Senator BOND. I had heard the current reestimate was $2.9 billion.

Mr. JOHNSON. That's correct, Mr. Chairman, based on more current forecasting that we have done since the budget request was prepared. It has escalated up to about $2.9 billion.

Senator BOND. Since we have not gotten the supplemental request yet, can we expect that $2.9 billion will be in the supplemental request?

Mr. JOHNSON. No, Mr. Chairman. I do not think you will see that. I think you will probably see a supplemental request on the order of $979 million. The rationale for that is that they are looking toward our budget request for fiscal year 1998 of $2.4 billion to address prior year requirements, along with the $320 million requested for 1998 requirements.

Senator BOND. Well, there are going to be needs for 1998 too. Why do we not go ahead? We know it is there. It does not make a lot of sense to me that we put off to another year—where we are going to have tremendous budget pressures—the request for the things that you know you are going to need now. That just does not make any sense.

Mr. WITT. I think OMB had intended that the central fund would help meet those requirements in 1998.

### ESTIMATES FOR RECENT OHIO RIVER FLOODING AND TORNADO DISASTERS

Senator BOND. Oh, yes; that is the contingency fund? Take it off budget. Yes; that will work.

What is the status of the most recent Ohio River flooding and the tornado disasters? Do you have any cost estimates on this?

Mr. WITT. No, sir; the water has just now receded and we are following through with the preliminary damage estimates for public assistance. I do not have the total figure for the checks that were sent out for individual assistance programs yet, but we will provide it to you with the estimates on the public assistance.

### COSTS FOR NORTHRIDGE

Senator BOND. Can you give us some idea why the cost estimates for Northridge have increased from $6.1 billion a year ago to $7.8

billion? Senator Boxer touched on some of these. I would appreciate any expansion that you would like to make on that.

Mr. WITT. The cost has increased because of the findings of the architectural and engineering studies completed for the rebuilding of large projects. It has become very evident that when we gave the early estimates on Northridge the extent of the damages was hidden. The actual cost of repairing those buildings that were condemned or red-tagged in California is much more than we had anticipated.

For example, when I was at Cal State University, workers removed sheetrock from the wall and it revealed 6-inch steel torn in half in the foundation of the building. Of course, we could not know the extent of the damage until it was torn out and the foundation examined.

Senator BOND. Thank you, Mr. Witt. We will come back later.

I turn to Senator Mikulski.

FUNDING FOR DISASTERS

Senator MIKULSKI. Thank you very much, Mr. Chairman. I have a set of questions I would like to ask, one of which, of course, goes to the Maryland situation.

First, let us talk, though, about some national issues. How do you best think we need to fund disaster relief? This is not a general question for a general answer. You focused on this. You see how OMB is essentially pushing this over for a few years, but essentially how do you think we should do this? Or if you do not have a recommendation specifically today, what do you think you will be able to tell the committee on how we could be able to do that?

Mr. WITT. In light of the data my staff has put together regarding historical averages faced over the past years, we have determined that the 5-year average cost, less Northridge, has been pretty consistent.

I think it is very important that we not only have the funds to be able to respond and recover, but as the chairman said earlier and as we all agree we have to get control of the cost of disasters. We all need to sit down realistically and say "This is what is going to be needed to address future disasters."

DISASTER CLOSE-OUTS

Senator MIKULSKI. But what is the process by which we are going to arrive at this? Are we going to have clear criteria for what we get into, specific cost sharing by the States, the issue related to rehabilitation? I understand there are 500 open disasters currently on the books, some dating back to 1989, some small, but they are not small if you have been hit by a tornado. Are they open because of the ongoing rehabilitation efforts?

Mr. WITT. First of all, it has been a top priority of mine, of our Chief Financial Officer, and of the inspector general to close out the old disasters. Gary, what is the total to date for disaster close-outs?

Mr. JOHNSON. $1.8 billion in human services programs with recoveries of over $400 million back into the fund.

Senator MIKULSKI. I did not understand that answer, sir. I am sorry. The microphones are——

Mr. WITT. We have closed out over 100 old disasters that were opened back in the 1970's during Hugo, and other disasters. We have also put a top priority on reconciling the disaster fund, and Gary has done a really great job on this.

CRITERIA FOR REHABILITATION FROM DISASTERS

Senator MIKULSKI. Let us then go to the whole issue of rehabilitation as compared to reengineering. This seems to be a subject of great dispute about what do you rehab to. Do you rehab to its former state? Do you say that if a hurricane hit your very expensive project but not a project necessarily to declare health, safety, economic viability of a community? What do you think should be the criteria for the rehabilitation expenditures, and have you been involved with HUD in this because I understand that is also one of the dynamics? What is HUD's criteria for that?

Mr. WITT. FEMA's criteria is if a structure has suffered more than 50 percent damage, then we do a cost-benefit analysis to determine whether it is realistic to repair that structure or to rebuild that structure. In most cases, it has proved to be better to rebuild it rather than repair it, particularly if it is a high-risk facility such as one that has never been retrofitted against earthquakes, or one that is located in a floodplain.

I have not worked with HUD regarding their criteria, but I will be happy to talk to Andrew and work with him on this issue.

FLOOD MITIGATION IN MARYLAND

Senator MIKULSKI. Well, Mr. Director, I am very proud of what happened in Maryland after the disaster—first of all, during the disaster when we were hit by so much floods in which the Potomac overflooded, businesses were wiped out along the Potomac. There is one area in Cumberland that was so heartbreaking in which three automobile dealers that were lined up one after the other lost their entire business and inventory, and our readiness and response really did save lives. And we thank you for your response.

Also, as you know, the Hagerstown water supply went out. We had to take in water by the National Guard to make sure that nursing homes, schools, and others at risk had fresh water.

After the flood, at my request Governor Glendening established a flood mitigation task force, chaired by the Speaker of the House, cochaired by the Army Corps of Engineers, and Maryland Emergency Management to look at what could be done so that we would not be faced with such dire economic impact again on local communities. I believe that that is a model where local people, working with Federal resources, came up with a series of specific recommendations on how their home would not be flooded out, their business would not be flooded out, and the community would be safe.

What I would like to know is then what is your response to even the procedure that we did? Do you think that is a national model?

And then No. 2, based on that, what do you think you could do to respond to Maryland and what criteria you would be using to save lives, save communities, but then ultimately, so that if we ever have those terrible floods again, we do not have to turn to

FEMA because of the homework and Federal investments we are making now.

Mr. WITT. The flood task force that Governor Glendening put together and that we all worked on is a very good example of what needs to be done nationwide, not only to address floods but to address whatever risk a particular State is facing. The ideas works very well in conjunction with what FEMA wants to do with hazard mitigation in developing disaster-resistant communities. If we can identify high risks up front and start eliminating those risks before a disaster happens, then the cost of a disaster when it happens will be less. This is something that has been proven time and time again. So, it is important that we try to cut the cost by cutting the risk.

I have had round table discussions with private industry, including mortgage lending institutes, and representatives from the insurance industry. They want to start investing in communities by helping to eliminate the risks faced by those communities. It is to their benefit as well as the economy of a community. We can do a lot working together on these task forces and I think it will make a significant difference in the long term.

Senator MIKULSKI. Well, Mr. Witt, I have met with those families. I met with the business people and said we would do all we could not only to get them back on their feet but that they would not face these terrible risks again.

I met with a mother whose family nearly lost their lives and promised that mother—and the little boy lost his catcher's mit, but happy that we did not lose his life—that we would take specific steps along the Potomac, whether it was related to the relocation of housing, whether it was also retrofitting a water plant.

What do you see as your criteria for responding to that? In Maryland what projects do you think could be pursued to do this type of reengineering and rehabilitation?

Mr. WITT. My staff met with Dave McMillion this week on the task force recommendations regarding mitigation activities for Maryland. The criteria for any mitigation project is whether it is cost effective to do this. Does the cost analysis support the activity?

The criteria for establishing the disaster-resistant community concept is very similar to what we have in the flood insurance program. We have 18,000 communities that belong to the flood insurance program, but those communities that belong to the program have to comply with building standards for future building in that community. If you can get a community to build better and safer, complying with standards established to be a disaster-resistant community, this would make a difference.

Senator MIKULSKI. So, we can look forward to help in those areas related to housing, the issues relating to waterproofing the wastewater treatment program, and issues like that?

Mr. WITT. The projects that they presented to me in the report I read were very good projects, and they showed that it was cost effective to do those projects.

Senator MIKULSKI. Thank you, Mr. Chairman.

Senator BOND. Thank you very much, Senator Mikulski.

Senator Boxer.

Senator BOXER. Thank you, Mr. Chairman.

Mr. Witt, I understand that the largest single cost to FEMA has been public building repairs from earthquakes, and we discussed that a little as to the fact that they're hidden at first and once you get behind the sheetrock, it's a nightmare.

The President has proposed in your budget a $50 million program to work with State and local agencies—and this may dovetail on what Senator Mikulski was talking about—on steps to lessen the damage in future disasters—this mitigation idea. Has your experience with Northridge helped shape this program, and if so, in what way?

Mr. WITT. Absolutely. If you remember, prior to Northridge, the State had a program that they were working on to retrofit the bridges in California for seismic resistance. Every single bridge that they had already retrofitted stood up to the earthquake. The bridges that had not been retrofitted collapsed. The cost of rebuilding those bridges—that infrastructure—was very, very expensive.

Even the public buildings that had been retrofitted and the private buildings that had been retrofitted to the new California building code survived that earthquake with very minimal damage.

Another good example is that house in Hollywood. Every house on the block had major damage or was almost destroyed except one. The owner spent $1,000 on that house, doing the work himself. He never even had a single pane of glass broken in his house. He did not even have to ask for any assistance. That is the type of thing that can make a difference.

Senator BOXER. I hope also what we do through these programs is let the States know that we want them to pay attention to this and not leave the deadline wide open because the States have to work with us on this because as Senator Mikulski has talked about, we have these disasters that we do not close out. I just do not think it is a message we want to send. I think the States, even though it is hard, have to come with a match. Of course, it is small compared to what they are going to get out of it, but we have to have some reasonable expectation that by a date certain, they are going to apply for this program. Do you not agree?

Mr. WITT. Absolutely. California is a good example. The State of California has not only been hit by earthquakes but fires and three floods. The State staff has been overwhelmed in California.

But what we are doing now is important. Last year you appropriated $3 million to support State hazard mitigation officers to work on mitigation projects. We are also working with the States to put in place a statewide mitigation plan which will prioritize mitigation projects before a disaster ever happens. That will make a significant difference. Instead of a State having to establish a hazard mitigation team and then follow through trying to prioritize projects, we will be able to help a great deal.

Senator BOXER. Good. One second.

[Pause.]

DISASTER COST-CUTTING PROPOSALS

Senator BOXER. I wanted to just make sure that I remembered this correctly. A couple of years ago we passed an amendment that I wrote in EPW that gave States permission to use their highway funds for retrofit prior to a disaster. So, we are trying to help. In other words, if we can get those highway funds on a regular basis used to retrofit highways and bridges, it is going to be a big help, and we are starting to see that happen in California.

Well, I understand you will be presenting a number of cost-cutting proposals as part of your recommended changes to disaster legislation. Senator Bond and I both serve on the Environment and Public Works Committee which has jurisdiction over this legislation. Without telling us all the different things that you are doing, at what point do you expect to have this legislation ready for us to take a look at?

Mr. WITT. I am going to have it in the chairman's hands before this bill goes to the floor.

Senator BOXER. So, you expect soon?

Mr. WITT. Yes; I will see to it myself.

DISASTER ASSISTANCE FOR RECREATIONAL FACILITIES

Senator BOXER. OK.

My last question had to do with the recreational facilities. As I mentioned in my opening remarks, I feel that Senator Bond has hit on a very important point. We have so many things we need to do and then we look at some of the more frivolous things that we perhaps do.

However, I want to make a point that if something like the Los Angeles Coliseum which is a publicly owned facility is hit, that becomes a major economic loss to a community. So, I am just hoping that as you look at these areas where we can save funds, we just cannot say all recreation because in many cases these sports facilities are economic engines for communities and they are publicly owned. So, I hope that there would be some discernment when we look at the whole area of recreation.

Mr. WITT. Authorization for types of spending from the disaster relief fund has changed over the years.

I agree with the chairman that it is time to revisit this area. I think if it is a revenue-producing entity, such a publicly owned piece of property that is rented out to a group that is operating that facility, then that group needs to look at getting a low-interest SBA loan. I think we seriously should look at that.

I think we should concentrate on the health and safety of a community and of individuals. I think that is absolutely essential and should come first.

Senator BOXER. Thank you.

DISASTER APPEALS

Senator BOND. Thank you very much, Senator Boxer.

Mr. Witt, going back to your discussion with Senator Mikulski about the open cases, I gather a lot of these are kept open because there are three levels of appeals for disaster projects and for disasters. Apparently there is no disincentive to States to continue to

appeal and appeal and appeal. No. 1, they have three levels. Why is any more than one needed? What percentage of appeals are sustained? What additional cost? There has got to be a way we can clean this mess up, is there not?

Mr. WITT. Mr. Chairman, I totally agree with you and with the inspector general's report on this. We want to have one level of appeal. I was astounded to find, Mr. Chairman, that we pay for the appeals.

Senator BOND. So, it is a free bite at the apple. You can keep coming back and going and going and going.

Mr. WITT. There is no disincentive at all. If a State loses an appeal, it should pay for it.

SEISMIC ALGORITHM

Senator BOND. Somewhere along the line, there is the beginning of some criteria on that.

Let me jump back to one on this seismic algorithm. I am not sure I understand what a seismic algorithm is, but I gather it has cost us about $900 million because the program was designed to expedite disaster aid, and instead of just repairing the damage, you have said the funds can be used for an improved project involving construction of a new building on a different site.

Under what authority did you implement the program? Do you think that FEMA can create without congressional authority the opportunity to launch a major new project like this? Does Congress not have a role to play in establishing a brand new program like this?

Mr. WITT. Yes, sir; Mr. Chairman. I did not do it to circumvent anything that Congress had not approved. The algorithm is basically an outgrowth of what we have in place with the mitigation program. I did coordinate the concept with the inspector general and with our General Counsel to make sure that I did not violate any laws, and they assured me that I was not doing so.

The algorithm was put in place to evaluate whether it was more cost effective to do an alternate project than it was to rebuild the existing project.

DISASTER ASSISTANCE FOR SPORTS FACILITIES

Senator BOND. Let me go to disaster criteria. My colleague from California mentioned possible damage to the Los Angeles Coliseum. If that were completely wiped out, I think it would cost less than what we put in to UCLA by about a factor of five.

But we have some brand new sports facilities in St. Louis, marvelous facilities. We even imported a California quarterback to try to improve the performance there. [Laughter.]

These are revenue-generating facilities, and we live along the New Madrid fault. You are well aware of the New Madrid fault.

Before something happens to a sports facility anywhere, do you think it would be proper if we met with the Governors administration and said to those local organizations, governments owning sports facilities, you better have insurance, you better take some steps to cover them because in the future if one of these major revenue facilities comes tumbling down, we are not going to be able

to provide the relief to the otherwise incapable of paying for it? Is this something that you would recommend?

Mr. WITT. I totally support that, Mr. Chairman.

TIMETABLE FOR DISASTER CRITERIA

Senator BOND. I have a list of all of our discussions. When we asked about formulating disaster criteria, you said we are pretty close to having something concrete. In last year's questions, you said we are—2 years ago, we are going to define objective criteria. In September 1996, you said that FEMA is in the process of developing a new approach. We intend to present options early in the 105th Congress.

Having these things as we go to the floor may not be early enough. Where are they and will they include criteria to ensure that States use their own capabilities to handle disasters not declared by the President?

Mr. WITT. Yes, sir; they will.

Senator BOND. And when do you think we might see those?

Mr. WITT. Mr. Chairman, if you want it before it goes to the floor, I will do my very best to get it to you.

Senator BOND. We have been asking for this, and seriously, if we are going to work on this, we ought to work on this at the committee level. I do not want to write this. I do not want the committee to have to write this. We have been called on to do enough legislating, but if we are going to have to do it, I would like to have that before we go to markup so we can see your recommendations.

Mr. WITT. OK.

Senator BOND. Thank you, Mr. Witt.

Senator Mikulski.

INSTITUTIONALIZING REFORM

Senator MIKULSKI. Mr. Chairman, I have only a very few questions.

What we are trying to get here is a momentum. I will tell you the objective that I see is, No. 1, I would like to be able to institutionalize the reforms that came under your administration. Because this committee is spread out over such a wide variety of authorizing committees, this might with some consensus be able to institutionalize those reforms.

The second part of that is I believe is both the disaster contingency fund, which is a significant issue, and then the difference between rehabilitation, restoration, and reengineering for want of another word. After the flood waters go down, after the hurricane debris is picked up, after the earthquake and aftershocks are over, what do we do?

I recall when we were dealing with the San Francisco earthquake, the whole idea of restoration of some historic buildings was so phenomenal that it would have been difficult to undertake. Therefore, that is different from rehabilitation to make sure that housing for ordinary people or small businesses are helped back in business. So, you see rehabilitation is an issue.

The second is restoration and then the third is what are the steps that we could take during rehabilitation that really prevent some of the risk-prone aspects from—in other words, where we

know there is risk, where we know that a facility is risk prone, either through engineering, relocation, all those techniques that the corps and others can tell us that we can take so in the process of rehabbing, three raindrops later we are not back in the flood business. I am not being cynical here.

I think that last part takes a lot of clarification because what we face is where people want restoration. In many ways, that is just not fiscally possible.

No. 2, even though some projects are desirable from a local community's standpoint, they might not be fiscally feasible from a Federal standpoint.

I know during the last debate, Senator McCain showed great sensitivity to Maryland when we were talking about marinas. Some marinas are private yacht clubs, and I am sorry if anybody loses their yacht. But in Maryland those marinas were small business, primarily small boats or where watermen keep their boats and so on. So, you see, part of it is not to describe something like a marina, but it is: What is the impact on the local community? What is the real economic impact? If you take 20 of those marinas and knock them out up and down the 3,000 miles of the Chesapeake Bay, that is not a big ticket item, but that is 20 small businesses.

Anyway, that is the kind of criteria that we are looking for. One, what brings you in? What do you pay for it once you do come in? And No. 3, once the emergency is over, what business is FEMA in? Rehab, restoration, reengineering, all of the above, none of the above, and so on. This is a great opportunity to institutionalize reform and lay the groundwork for others.

I know that you have been out on the road. It has been an enormously trying time for you and a great sacrifice for your family too, to just have to be able to pick up and go. I just want to say thank you.

Do you have any comments you want to make on what I have just said?

Mr. WITT. I think it is very important to develop the disaster criteria and that is what we are trying to do. Mr. Chairman and members of the committee, I blame no one but myself for not having everything done on time. What Senator Mikulski is talking about is important, that legislation be put in place so that whether I am here at FEMA or someone else is here, that something is institutionalized. I wholeheartedly agree with you, Senator. We have to do this.

Senator MIKULSKI. I think you really need to task a group within your organization to do this for whatever is your own management mechanism and to work with us, and then we will be consulting with the House. You have got three of us particularly with the chairman of the House committee, Mr. Bond, and myself are in risk areas because of flood or hurricane, earthquake, and so on.

Mr. Chairman, I have no further questions, but I think we have got some momentum going here today.

Senator BOND. I think so. How about July 4?

Mr. WITT. Sounds good.

Senator BOND. Let us do that by July 4. OK?

Mr. WITT. Yes, sir.

Senator MIKULSKI. Even if we do not have campaign finance reform by that date, maybe we could have FEMA finance reform.

Senator BOND. These are going to be some unpopular decisions.

Mr. WITT. Yes, sir.

Senator BOND. How do you plan to deal with these? Is that going to make it difficult for you to come forward with the recommendations?

Mr. WITT. It will probably be very difficult, but I think we can deal with this working with organizations such as the Governors Association, NEMA, and NCCEM. I think they understand, Mr. Chairman, that dollars are limited and that in the future, we are going to have to put those dollars to the best use that we possibly can. I think it is feasible and I think we can do it.

INSURANCE FOR PUBLIC FACILITIES

Senator BOND. So long as FEMA is willing to cover a community's disaster losses, it seems to me there is not much of an incentive for the community to purchase insurance coverage for public facilities, and in some instances people say that FEMA is a lot more generous than the insurance company would be. Does it not make sense to get those priorities in line and make sure that we are not discouraging the purchase of private insurance?

Mr. WITT. Yes, sir; it does.

Senator BOND. Do you have any empirical data as to how insured versus FEMA-covered facilities fare?

Mr. WITT. Public facilities?

Senator BOND. Yes.

Mr. WITT. I do not have the data now but we are looking at trying to get the States and local governments away from being self-insured and try to move them toward the direction of insuring public facilities.

Senator BOND. That would be part of the proposal?

Mr. WITT. Yes, sir.

The important thing is, if we can work with them and give them some kind of an incentive such as a better cost share where they do insure public facilities, then it would help eliminate the long-term disaster cost.

STATE COST SHARE

Senator BOND. I need to go back to this question of project cost share upfront. We heard earlier today that California has not come up with its cost share because they do not know what the total cost is, but if we have already paid out billions of dollars, they are getting some cost. Is not the failure to have this upfront cost a bit of a disincentive for States to control costs if they do not have to come up with the cash in advance?

Mr. WITT. A lot of States—of course, you are very familiar with this—legislatures meet every 2 years instead of every year. So, it is difficult sometimes for States to come up with that upfront cost-share match. The percentage of the cost-share match they share in with the local subgrantee varies. Some States pick up the full cost share, while some States pick up 12½ percent, and then the county or city will pick up the other 12½ percent. It varies across the whole country.

A lot of States will hold their cost share until the final inspection is done and then finish paying the total amount of the project.

ELIGIBILITY OF PRIVATE, NONPROFIT ENTITIES

Senator BOND. I think that is something we might want to address.

Last year the GAO issued a report called "Improvements Needed in Determining Eligibility for Public Assistance." GAO's recommendations include clarifying the criteria for certain private, nonprofit facilities and in the September 20 letter you told me that policy changes for revenue-generating private nonprofits were under consideration. Do you have any recommendations on that yet?

Mr. WITT. Yes, sir, Mr. Chairman. We will include those recommendations in the report we are preparing for you. If it is a private entity that is revenue producing then it should apply for SBA loans instead of grants.

HAZARD MITIGATION

Senator BOND. Let me turn to the hazard mitigation efforts. Your 404 hazard mitigation grant program is funded through the disaster relief program. States are entitled to receive funds equal to 15 percent of FEMA disaster relief assistance in the State. There is approximately, I understand, $1.4 billion unobligated.

What is the problem with it and what do you propose to do about it? Are the funds not needed?

Mr. WITT. Yes, sir; they are very much needed.

We have been working with State directors on a hazard mitigation task force to identify how we can speed the process up, what we need to do to be more accountable, and to be less bureaucratic and get rid of the redtape.

Most States go through an environmental review process which we then review. The process goes from the State to the region to FEMA headquarters. We have been pushing the responsibility to work directly with the State down to the regional level.

We are also looking at HUD and other agencies to see how they do environmental assessments and reviews in order to put in place the best procedures.

We have been working on the States' capability to prioritize these projects as well. Last year you graciously gave us money to support a person in each State to work strictly on these mitigation projects. We are working now with the States on the 409 mitigation statewide plans that are going to help a great deal, as will changes in the cost-effectiveness review process changes.

When a State has a disaster—and they have had many—they are often bogged down in disaster recovery and response activities and they do not have time or staff to concentrate on mitigation at that point. We really need to emphasize mitigation as a community being rebuilt, not later.

We are looking at the possibility of putting a sunset clause in the legislation that we are going to provide to you. If a State cannot obligate funds and get its projects done in 2 years, then it would lose the money. We just cannot continue to drag projects out year after year.

CRITERIA FOR PERFORMANCE PARTNERSHIP AGREEMENTS

Senator BOND. All right. So, with $1.4 billion remaining unobligated—it struck me that we are asking for $50 million more when we have got a great big pot of money that has not been utilized. Well, I guess we will see your legislative proposals on that.

FEMA's budget includes $147 million for State grants, the so-called performance partnership agreements. When you first proposed them 2 years ago, your Agency indicated there would be new criteria for awarding State grants. What are those criteria?

Mr. WITT. Under the PPA, which has been in place for 2 years, States have the flexibility to design programs with FEMA to meet the risks that they face in their State. We have been working with the States in developing a self-assessment process which will be used to establish a baseline of capability in those States.

We are tying this baseline assessment into FEMA's GPRA developmental activities.

INCENTIVES FOR STATES

Senator BOND. Are there specific performance measures so you know whether the State is getting the job done? How do you hold them accountable? Are there any rewards for States that do the good jobs or disincentives for the ones that do not get it done?

Mr. WITT. One incentive to do a better job or to have a statewide disaster fund set up could be a favorable cost share should the State have a disaster that warrants a declaration. Also, if a State has a mitigation program in place with a mitigation fund established it could be used in State-declared disasters, not only in the federally declared disasters. Those are some incentives that we are trying to work into the changes that we are going to implement.

Senator BOND. That would require statutory authorization to do that?

Mr. WITT. Yes, sir.

STATUS OF NATIONAL FLOOD INSURANCE FUND

Senator BOND. Again, we would be anxious to see your recommendation on that because that certainly would seem to make some sense.

What is the status of the flood insurance fund in light of the recent flooding? What is the current level of borrowing? Is there any danger you would exceed the $1.5 billion statutory limit on borrowing?

Mr. WITT. Mr. Chairman, with the rash of floods that we have had recently, I am concerned that even with the additional $500 million in borrowing authority in 1997, the limit has not kept pace with changes over the years in the flood insurance program. We have $370 billion in coverage now compared to the $8 billion in coverage that we had back in 1974, but we will still only have a $1 billion borrowing authority in October. I think we are up to $800 million in borrowing now and we are now assessing how many policies and claims we have to pay in this recent rash of floods.

Senator BOND. Are we looking at another overhaul of the flood insurance program? It sounds to me like it would take at least 2 years of normal operation just to get that back, would it not?

Mr. WITT. Yes, sir; at least.

REQUIREMENTS FOR DAM SAFETY

Senator BOND. Dam safety is something that is very important to Missouri and we worked hard to put that in the water resources development authorization bill last year. Why does FEMA not request any funds for the requirements of the new dam safety legislation? Are these a priority for you?

Mr. WITT. Yes, sir; they are. We are planning to spend $432,000 for the dam safety program from the flood program. We are developing an implementation plan for a national dam safety program as well.

Senator BOND. Will you be seeking reprogramming or anything more on that program? Do you have the money to carry it out?

Mr. WITT. We have the $432,000 to get the implementation program in place and determine what other moneys we will need for the national dam safety program.

STATE AND LOCAL ASSISTANCE

Senator MIKULSKI. Mr. Chairman, I just have two other things that I wanted to submit to the record. One is a letter from the Maryland Emergency Management Agency talking about our need to continue to focus our interest on the SLA, State and local assistance account, which, of course, is the one that really enhances our response and readiness.

MARYLAND REPRESENTATION IN FALLEN FIREFIGHTERS FOUNDATION

Another question goes to the fact that we are very proud of the Fire Academy in Maryland. The Maryland State Firemen's Association has played a major role in putting the Fallen Firefighter Memorial Program together which you know is so touching. We understand that this year you have turned over the Fallen Firefighters Foundation, and we are asking if you would ensure that the Maryland Firefighters Association has a seat at the table in the foundation.

Mr. WITT. Yes, ma'am.

Senator MIKULSKI. Because they really provide so much of the core support to the foundation.

Mr. WITT. Yes, ma'am.

Senator MIKULSKI. I thank you for that.

Thank you very much, Mr. Chairman, and I look forward to working with you in advance on the solutions to the really significant issues we have raised today. Thank you.

INSPECTOR GENERAL RECOMMENDATIONS

Senator BOND. Thank you, Senator Mikulski.

Very briefly I understand Mr. George Opfer, the FEMA inspector general, is here and I would like to invite him forward since we have been referring to him all morning on the recommendations that he has made. I gather the FEMA inspector general requests a slight increase from about $4.67 million to $4.8 million.

I will just ask you, Mr. Opfer, what problems face FEMA over the next few years and any recommendations you have for us that would improve program integrity at FEMA.

Mr. OPFER. I think, Mr. Chairman, that we are working quite well with the Agency. Shortly after the Northridge earthquake, there was a change in the philosophy both within the inspector general's office and the Agency itself when Director Witt requested the inspector general's office to immediately respond to disasters.

That was a change that really was not very common in the inspector general's community, not only in FEMA but in all the agencies—a change in the atmosphere where you have an inspector general's office trying to work with the management and going out to disasters on the scene so you can give upfront advice and try to become very proactive.

The Agency itself, as you know, is relatively small in comparison to other Federal agencies as far as the amount of money that is passed through to States and what is given out in disasters. Also, the inspector general's office in itself is very small. So, we try to marshal our resources with the other Federal communities to establish a task force.

We have been very successful in trying to weed out any sort of corruption in the disaster programs because we do not want the people to become victims twice—from the disaster and from people scheming to take Federal dollars.

In the 2½ years that I have been in the Agency, I have seen quite a change as far as program managers and the Director requesting the inspector general's assistance in looking at programs. We are trying to provide service similar to a management consultant, where rather than doing a full audit or a full inspection, we can look at a program or look at issues which might be before the Director at the beginning stages, and provide recommendations that could possibly prevent any future problems in that area.

Senator BOND. You mentioned fraud possibly perpetrated on the victims of disaster. Do you find any other general problems relating to fraud, abuse, or mismanagement?

Mr. OPFER. We find a correlation between the larger disaster where more Federal money is put into a disaster area and the potential or increased, chance for different schemes or questionable activities.

We have been working with the insurance industry to see what information we can get as they are responding to disasters and marshal our resources with them. We also work with the State and local officials, including the Attorneys General, to get information in areas such as consumer fraud where we do not have jurisdiction. We want to make sure that we are marshaling all the resources that are available both at the State and local level.

Senator BOND. Well, thank you very much for your testimony and for your good work.

Mr. Witt, any closing comments or thoughts you wish to share with us?

Mr. WITT. Mr. Chairman, thank you for your support. We will work very hard with you, Mr. Chairman, and the committee to institutionalize those changes we discussed by July 4.

## ADDITIONAL COMMITTEE QUESTIONS

Senator BOND. We will expect that by July 4 and look forward to working with you.

[The following questions were not asked at the hearing, but were submitted to the Agency for response subsequent to the hearing:]

### QUESTIONS SUBMITTED BY SENATOR BOND

#### STATUS OF DISASTER RELIEF FUND

*Question.* What is the current balance in the Disaster Relief Fund, and when do you project the fund will be depleted?

Answer. As of March 31, $2.1 billion remained unobligated in the Disaster Relief Fund. Absent a supplemental appropriation, it is projected that by late spring, as the unobligated balance nears $500 million, FEMA will need to begin adjusting how we allocate money to the open disasters to ensure that we have dollars available for the immediate needs of victims and for emergency measures.

*Question.* Please explain, and provide a break-out for, why your current projections for the Disaster Relief Fund in fiscal year 1997 exceed the projections contained in the Congressional budget justification—which showed a year-end carryover of $100 million.

Answer. When the President's budget was prepared in early January, the projected unobligated balance in the Disaster Relief Fund for the end of fiscal year 1997 was $107 million. By mid-March, this same balance showed a deficit of $442 million. During this time period, FEMA had undertaken a major effort to refine its projected costs and unmet requirements. The increase of $549 million in projected obligations can be attributed to the following:

[In millions of dollars]

| | |
|---|---|
| Northridge: | 200 |
| 1996 declarations | 74 |
| Other prior year disasters | 268 |
| 1997 activity | 7 |

*Question.* Why have the cost estimates for the Northridge Earthquake escalated from $6.1 billion one year ago to $7.8 billion today—an increase of $1.7 billion? Please describe precisely what accounts for this increase. To what extent does the increase in Northridge estimates account for the fund's shortfall in fiscal year 1997?

Answer. The original cost estimate for the Northridge Earthquake was prepared prior to the development of the detailed cost estimates for the general acute care hospitals and other structures, the final estimates for the repair and retrofit of the historic Los Angeles City Hall, construction cost increases in the Los Angeles area, and the consequential increase in mitigation funding (which is calculated as a percentage of the estimated total program costs). These factors raised the estimated costs for the Northridge earthquake by $1.7 billion as summarized below:

[In millions of dollars]

| | |
|---|---|
| Safeguarding hospitals (seismic algorithm) | 940 |
| Los Angeles City Hall | 130 |
| Safeguarding other structures | 100 |
| Rebuilding Hospitals to EERI standard | 250 |
| Rise in LA construction costs since 1994 | 105 |
| Increased Section 404 Mitigation Ceiling | 230 |
| Reduced Administrative Costs | −50 |
| Total | 1,705 |

The higher estimated cost for the Northridge earthquake is one factor in FEMA's revised estimated shortfall for fiscal year 1997.

#### SEISMIC ALGORITHM

*Question.* How much of the increase in the Northridge estimates is attributable to the "seismic algorithm?" Under what authority did FEMA implement this program? Do you think it is appropriate that FEMA has the authority to implement a program of this kind with such sizable resource implications, with virtually no formal approval process from the Congress? Do you plan to use this algorithm in other disasters? How are you measuring the success (or failure) of this pilot program?

Answer. The Seismic Hazard Mitigation Program for Hospitals (SHMPH) was piloted and implemented under the authority of Sec. 406(c)(2).

FEMA rebuilt the hospitals to a higher safety standard under the authority of Section 406(e)(1) of the Stafford Act, which defines eligible costs in rebuilding structures:

> "(e) NET ELIGIBLE COST. (1) GENERAL RULE.—For purposes of this section, the cost of repairing, restoring, reconstructing, or replacing a public facility or private nonprofit facility on the basis of the design of such facility as it existed immediately prior to the major disaster and in conformity with current applicable codes, specifications and standards (including floodplain management and hazard mitigation criteria required by the President or by the Coastal Barrier Resources Act (16 U.S.C. 3501 et seq.)) shall, at a minimum, be treated as the net eligible cost of such repair, restoration, reconstruction, or replacement." *Emphasis Added*

This higher rebuilding standard for the area hospitals serves two goals: it reduces the level of damage expected from future earthquakes, and it helps ensure that acute care hospitals can continue to function in the aftermath of a future disaster, especially to treat disaster victims.

The cost increase attributed to the seismic mitigation program for hospitals was $940 million and included the repair and mitigation of all 20 affected hospitals. This increase is less than half of the $2 billion requested by two of the hospitals alone.

FEMA believes that mitigation should be integrated into the rebuilding from disasters. After an event occurs, communities tend to be more receptive to undertaking mitigation measures, and mitigation goals can more easily be attained by enhancing reconstruction standards.

Congress has a vital role to play in implementing a program with major resource implications. For Northridge specifically, FEMA included the projected spending for these infrastructure projects in its two supplemental budget requests for Northridge, both of which were approved by Congress.

FEMA took into careful consideration the Congress's opinion as stated in a March 21, 1996 letter to Director Witt signed by Congressmen Jerry Lewis and Bob Livingston and Senators Kit Bond and Mark Hatfield. This letter applauded the use of the algorithm and encouraged FEMA to use the Earthquake Engineering Research Institute (EERI) to further evaluate these projects.

Because many hospitals were closed due to damage, the algorithm was specifically designed to address rebuilding after the Northridge earthquake. When the detailed estimates were first being developed, it became apparent that reaching closure on hospital repairs would be extraordinarily time consuming and contentious due to the complexity of the facilities and differences in professional judgment of architects, engineers and other technical specialists. To reach a timely solution at a reasonable cost, a consortium of professional experts developed the algorithm for calculating the costs of repairing damages and providing hazard mitigation measures. This algorithm produces a repair and retrofit program that is consistent with hazard mitigation goals.

The success or failure of this seismic program will be measured by the ability of the hospitals to withstand a future earthquake (or other catastrophic event) and continue functioning.

We discussed this program with Members of Congress and their staffs, particularly those Members chairing or ranking on the relevant Committees of the House or Senate and in the affected areas. We believe the SHMPH is a prudent expenditure from the Disaster Relief Fund (DRF) since it will avoid future DRF expenditures and, more importantly, provide public health and safety services after the next earthquake.

A central concept of the algorithm, that is the arithmetical computation of disaster assistance in damaged critical facilities, is that it expedites recovery and diminishes confrontational exchanges between the Federal sector and disaster victims. Nevertheless, the SHMPH is not presently contemplated for use in other earthquake disasters.

Since mitigation is frequently a long-term investment, declarations of success (or failure) would be premature at this point. Expenditures under the SHMPH, however, are being tracked so that avoided costs can be estimated after the next earthquake.

### REPORT TO CONGRESS ON REDUCING EXPENDITURES

*Question.* The fiscal year 1997 VA-HUD appropriations act required FEMA to propose a plan to reduce disaster relief expenditures. The Subcommittee recently received a draft report, about 45 days late and still not final. The draft report includes

only some of the proposed recommendations of the GAO and the I.G. Why were the other recommendations—such as eliminating alternate projects, and changing the so-called 50 percent rule which triggers full-scale replacement of a damaged facility—taken off the table? Please explain which other options were considered and rejected, and why, and the cost-savings associated with the rejected options.

Answer. In developing the Report to Congress on Reducing Disaster Relief Expenditures, a broad range of options were considered, including all of the recommendations of the General Accounting Office and the FEMA Inspector General. Some of the GAO and IG recommendations were determined not to be feasible at this time. For example, eliminating alternative projects may provide an incentive for State and local officials to rebuild facilities even if they no longer serve the public welfare, in order to receive the grant award. Elimination of the 50 percent rule which triggers replacement would be inconsistent with the National Flood Insurance Program and may impact negatively on mitigation.

Two other approaches recommended by the Inspector General—the disaster tax return system of assistance and block grants—will be studied for potential applicability in the future.

Specific cost savings for these options have not been identified.

*Question.* Some of the proposed changes undoubtedly will be unpopular with certain constituents. Will this impede your ability to proceed with the changes and how do you plan to deal with these impediments?

Answer. We are currently in the process of consulting with our partners on potential policy changes. In general, they recognize that governmental resources at all levels are becoming more limited, and there is a need to reduce disaster relief expenditures.

To the extent possible, we have tried to focus on prudent ways of reducing disaster costs without impeding service delivery. For example, streamlining the public assistance program will not only save dollars but will actually improve customer service. We are also trying to reduce total costs through a pre-disaster mitigation program, rather than simply shifting the costs to another level of government.

We recognize that there may be some measures, particularly those which reduce eligibility, which may be unpopular with our constituents. In those cases, we will work with our constituents and Congress to develop appropriate legislative solutions.

DISASTER CRITERIA

*Question.* Two years after the initial commitment, FEMA has not made any changes to the disaster criteria. What changes—and when—will you be proposing to the declaration process?

Answer. In the fall of 1996, FEMA established a Panel on Disaster Cost Savings to examine, among other things, the issue of declaration criteria. Upon analysis and consultation with our partners, we have concluded that the high costs in the disaster program are driven by the number of large major disasters and broad eligibility criteria, rather than the number of declarations.

While we believe that the current declaration criteria continue to be appropriate, we can reduce costs by streamlining activities and targeting eligibility. However, factors used to judge severity, magnitude and impact are being updated to reflect current dollars, and procedures for conducting Preliminary Damage Assessment are being reengineered.

*Question.* How will the new criteria ensure that states use their own capability to handle disasters that should not be declared by the President?

Answer. The current criteria involve making a judgment on whether the severity, magnitude, and impact warrant Federal assistance to supplement the State's capability. FEMA provides grants to State and local governments through the Performance Partnership Agreement grants for the purpose of developing the capability to handle disasters.

*Question.* The number of disaster declarations has increased 54 percent in the last 5 years, compared to the previous 5-year period, partly due to FEMA's more liberal interpretation of the law. Don't you believe disaster declaration criteria would bring some much-needed discipline to this program?

Answer. The increase in total number of declarations is greatly influenced by the number of fire suppression grants in recent years, as well as a documented increase in severe weather events. Over the years, the Congress has changed the statute to be more liberal in its eligible benefits. Restricting eligible costs would achieve long-term savings in the disaster program.

STATE-SHARE

*Question*. Why isn't FEMA enforcing its own regulation to require states to demonstrate they have their project cost-share upfront? Isn't your policy of not requiring this upfront commitment a disincentive for states to control costs? What is FEMA doing to ensure that recipients of disaster assistance are satisfying their cost-sharing requirements?

Answer. Current disaster assistance regulations do not require a specific timing for the payment of the State's portion of the non-Federal share. A FEMA/State Agreement, which is executed between the Governor and the FEMA Regional Director immediately following a major disaster declaration, specifies the portion of the non-Federal share that will be paid by the affected State. At the end of a disaster contract, States are required to certify that they have paid their share of a project's costs as agreed to in the FEMA/State Agreement.

Consistent with the intent of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Public Law 93–288, as amended), current FEMA policy includes in the Agreement a provision for a Federal/State cost-share arrangement. FEMA believes that States have an incentive to control costs, because they are making a contribution to recovery efforts. FEMA only obligates and makes available to the State the Federal share of the estimated costs of a project (usually 75 percent). Therefore, in order to complete a project, the remainder of the funds must come from either the grantee or the subgrantee. If a project is not completed, the Federal share will be deobligated and any Federal funds that were already disbursed must be repaid by the grantee.

INSURANCE

*Question*. What measures is FEMA taking to see that public facilities are insured against the most probable perils they face? Should disaster assistance be reduced for public facilities in vulnerable communities that could have been insured but were not, as is currently done with flood insurance?

Answer. As a condition for receiving Public Assistance grants, insurance must be purchased and maintained to cover future damages for any insurable hazard to any public facility for which FEMA funding is provided. If the facility is insured at the time of a disaster, FEMA will fund damages not already covered by insurance.

Establishing the vulnerability of communities for hazards other than floods is a difficult task. While some areas of the country have established vulnerability to earthquakes, participation in earthquake insurance programs has been limited due to the expensive nature of the program. For example, in California, the State Insurance Commissioner has ruled that earthquake insurance is not reasonably available because it is not affordable. FEMA's regulations state that the Agency shall not require greater types and extent of insurance than are certified by the State Insurance Commissioner. Consequently, FEMA has been unable to require the purchase of earthquake insurance in California as a condition of Public Assistance grant funding.

SNOW DISASTER DECLARATIONS

*Question*. In your draft report, FEMA said it would, "publish revised regulations to ensure that FEMA is consistently only paying for those snow removal costs that are extraordinary and significantly beyond the states normal capability and resources." When will these regulations be revised? How do you define costs that are extraordinary and significantly beyond states normal capability and resources?

Answer. In October 1996, FEMA published a proposed rule that specified the work and costs that would be eligible for assistance in the event of a major disaster declaration for a snowstorm. The proposed rule stated that eligible work would be the clearance of snow from one lane in each direction on "snow emergency routes" or their equivalent, and from routes to critical facilities. The rule did not address declaration criteria or the measurement of States' capabilities.

Based on comments received on the proposed rule and FEMA's experiences in three snow declarations in January 1997, FEMA has decided to withdraw the October 1996 rule and publish a new proposed rule. This new proposed rule will establish declaration criteria and cost eligibility to ensure that assistance is only granted when the situation is truly beyond a State's capability and resources. As published in the Semi-annual Agenda of Rulemaking, the proposed rule for snow disasters will be published between April and November of 1997.

COMMUNITY CENTERS

*Question*. Last year, in response to questions for the record, you stated that FEMA would more precisely define community centers in order to clarify which of these facilities FEMA considers eligible. Has this been done? If not, when?

Answer. FEMA has published draft Policy No. 4511.050A, "Private Nonprofit Community Center Eligibility." The draft policy provides a more specific definition of community centers than the definition found at 44 CFR 206.221(e)(6), and includes examples of both eligible and ineligible community centers. In particular, the policy more specifically defines criteria such as: (1) open to the general public; and (2) established and primarily used as a gathering place for a variety of social, educational enrichment, and community service activities.

This draft policy is currently in the internal approval process. Pending its final approval, FEMA considers and rules on eligibility applications in the Private Nonprofit Community Center category on a case-by-case basis.

GRANTS MANAGEMENT

*Question*. When will FEMA have in place the new grants management system? Will it ensure that FEMA funds are spent effectively, efficiently, and according to law?

Answer. The Office of Financial Management, assisted by the Logistics Management Institute (LMI), has recently completed a thorough assessment of the grants management process for all of the Agency's disaster and non-disaster grant programs. An Agency-wide Team, reviewed and documented the current processes, identified issues and made recommendations for improving the grants management processes used in each of FEMA's disaster grant programs. A report, summarizing the reengineering process and the Team's recommended solutions covering the full cycle of the grants management process will be finalized in the near future.

In general, the Teams recommendations include instituting procedures that will enable FEMA to more effectively comply with federal regulations on grants administration and financial management; track grants from application through close-out, including timely financial reports and program performance monitoring. Once FEMA management formally accepts the recommendations of the Team, the Office of Financial Management (OFM) will secure a charter for managing the implementation of appropriate changes and developing an improved grants management system in the Agency. It is anticipated that the Agency will begin initiating some recommendations immediately and that a detailed action plan will be developed this summer. The development of this plan will include close coordination with other FEMA Directorates to assure that it is all inclusive and takes into consideration other disaster program initiatives. It should be noted, however, that it is expected that FEMA management will consider additional improvements and alternatives as the Agency begins implementing the recommended changes.

FEMA will realize several benefits by implementing the Team's recommendations. The Agency can not only expect to more effectively comply with federal regulations governing grants administration and financial management, but also to improve the Agency's ability to provide oversight and manage the disaster grant programs. Including the other cross-cutting disaster program improvements, along with the need for external coordination and significant internal training must be accomplished prior to seeing long term results. Full implementation of the Agency's improved grants management system is expected to take between two-three years.

DISASTER CLOSE-OUTS

*Question*. Why do you have disasters open that go back to 1989? Why can't you close-out disasters within two years or less? What is the average length of time to close out a disaster? What does FEMA believe is a reasonable time to close-out a disaster? Wouldn't a shorter period enhance fiscal responsibility and accountability? How long does the insurance industry take to close-out major projects, and why couldn't FEMA follow an insurance industry model? Couldn't FEMA deobligate significant amounts of disaster relief funds if it closed out disasters in a more timely manner?

Answer. FEMA funding is made available to the disaster-affected State as a grantee and further transferred to the sub-grantee in accordance with the Office of Management and Budget's requirements for Grants management. Public Assistance grants are governed by FEMA's regulations, also known as the common rule. The intent of the rule is to allow the States more discretion in administering Federal programs in accordance with their own procedures. Because these grants are for reimbursable costs, the grantee must make an accounting to FEMA for all eligible

costs on each approved large project. Final payments are made only after the approved work is completed and certified by the State.

Large, complex projects that require extensive design and construction phases in addition to compliance with all codes, regulations, standards and local permitting procedures can be extremely time-consuming. As a result, disaster close-outs are often delayed by these large projects. However, FEMA has made significant progress in closing out disasters. For example: in fiscal year 1993, FEMA closed out seven (7) disasters; in fiscal year 1994, FEMA closed out 31 disasters; in fiscal year 1995, FEMA closed out 42 disasters; and in fiscal year 1996, FEMA closed out 16 disasters.

As part of our Business Process Reengineering effort, FEMA is considering several options—including looking at insurance industry methods—to determine if we can adopt a more rapid settlement approach, based on accurate cost and scope estimates, and additional means of providing incentives to complete work as quickly as possible.

FAST-TRACKING

*Question*. Following the Northridge Earthquake, FEMA used a system referred to as "Fast tracking" to deliver assistance to individuals, which involved providing aid to applicants prior to inspecting homes. I understand a very high proportion of those receiving aid were deemed ineligible and FEMA is attempting to recover those ineligible costs. Will you be using this method again? Do you believe it is appropriate that FEMA has such discretion to dispense federal aid without following appropriate and prudent procedures? Are you using fast-tracking now?

Answer. The extent of the damage and the densely populated geographic areas impacted by the Northridge Earthquake indicated that FEMA would receive an unprecedented number of applications for disaster assistance. In an effort to help the greatest number of disaster victims as quickly as possible, FEMA assisted applicants from areas where the damage was most pervasive on a expedited basis; prior to inspecting the applicant's home.

To identify the most heavily damaged areas, FEMA used computer mapping of Modified Mercali Intensity (MMI) readings. "Fast-track" checks were then mailed to disaster assistance applicants only if: (1) the applicants resided in a zip code that corresponded with the four MMI zones of most intense seismic activity (67 zip codes were identified); and (2) the applicant indicated that they had experienced real property damage when they registered with FEMA. Recipients of "fast-track" assistance were notified at the time of their application that a subsequent housing inspection would take place, and that if they were found to be ineligible for assistance, they would be required to return their assistance grant to FEMA.

Each home was subsequently inspected, the degree of damage was assessed, and the determination of eligibility for housing assistance was evaluated. Recipients found to be ineligible for assistance were required to return their checks. The rate of confirmed eligibility for those households assisted before inspection was 90 percent.

The fast-track method of expediting assistance helped thousands of severely impacted disaster victims significantly more quickly than standard procedures could accommodate. During the seven-week period the fast-track system was implemented (from January 21–March 9, 1994) FEMA issued 152,573 checks totaling $400,486,000 of assistance. Approximately one-third of these applicants, 48,302, were provided assistance via the fast-track system. It should be noted, however, that recipients of "fast-track" assistance represent only 7 percent of the total number of applicants who registered for assistance.

Although the fast-track process resulted in some ineligible recipients, FEMA believes it was appropriate to implement the fast-track system, given the unique circumstances of the Northridge earthquake. FEMA is not currently using the "fast-track" system, but would not rule out its use in the future under appropriate emergency conditions.

ADMINISTRATIVE COSTS

*Question*. Last year, in response to questions submitted for the record, FEMA stated it would propose a rule requiring grantees to provide a full accounting of their administrative costs associated with public assistance grants. To date, FEMA has taken no action to clarify the rules governing administrative costs, or to ensure that grantees properly account for administrative costs. Why? Also, FEMA stated it is planning to promulgate a proposed rule that would require small project expenditures to be accounted for and excess funds returned to FEMA. Why hasn't this been done?

Answer. Last year, in response to recommendations from the General Accounting Office (GAO) and the FEMA Inspector General (IG), FEMA proposed to develop a regulation that would require an accounting of grantee administrative costs. Prior to drafting such a rule, FEMA determined that the statutory administrative expenses were also intertwined with both State disaster management costs, and indirect costs that may be claimed in connection with Federal grants. Therefore, FEMA is conducting studies to determine the complete picture of the costs to States to manage a disaster recovery effort. The goal is to develop a single cost factor that will cover all administrative expenses, both direct and indirect.

In response to further recommendations in the subject GAO and IG reports, FEMA began to examine the impacts of a regulation that would require refund of overpayments on "small projects." Concurrently, FEMA embarked on a 12-month process to study existing Public Assistance procedures, develop new procedures, and implement the procedures in actual disasters. Because these changes may affect the concept of small projects as it was originally envisioned in 1988, we have delayed proposing a rule change.

PUBLIC ASSISTANCE/BUSINESS PROCESS REENGINEERING

*Question.* FEMA has underway a "BPR" effort to streamline the public assistance program. When will this be complete? What specific changes do you envision at this time? What sort of cost-savings might we expect?

Answer. A draft report on the proposed reengineered process was issued on April 7, 1997, to FEMA regional offices, the National Emergency Management Association (NEMA), and various project participants for comment and feedback prior to issuing a final report. The final report on the Public Assistance Reengineering project is scheduled to be completed on April 30, 1997. The next phase of the project moves beyond redesign in concept and into actual implementation. This will include development of a pilot test implementation plan, a pilot set-up and pilot test and a pilot evaluation, prior to full-scale implementation. We anticipate conducting a pilot-test and evaluation within the next six months.

Some of the changes envisioned in the proposed redesign include:

—Pre-identify and pre-educate potential applicants;
—Provide applicants with alternatives for accessing the Public Assistance application process;
—Use Preliminary Damage Assessment (PDA) data to make initial obligations to the State for immediate emergency funding needs, rather than relying on additional site inspections;
—Establish deadline for State reconciliation of emergency work costs;
—Require a more detailed and deliberate application for permanent restorative work to include a schedule of damaged sites, location, damage description, preliminary cost estimate, and insurance coverage;
—Establish a FEMA single point of coordination for applicants and States;
—Capture damage information one time, at the source, and electronically if possible;
—Move decision-making and project review closer to the customer;
—Empower the States to validate small projects (under $46,000) without always requiring a Federal inspection;
—Process large projects (over $46,000) or complex projects through inspection and field review by certified FEMA/State inspection teams;
—Focus on organizing work around the applicant and developing "projects" that best meet their recovery needs;
—Institute a settlement approach (based on an accurate scope and cost estimate) versus actual cost reimbursement to avoid revisiting cases multiple times;
—Provide incentives to complete permanent work as quickly as possible and to submit documentation within a reasonable time-frame; and
—Strictly adhere to and enforce time frames such as project completion deadlines, deadlines for submittal of documentation, appeal submittal deadlines, and appeal resolution deadlines.

The expected benefits of the redesign include quantitative reductions in time and costs that will enhance and strengthen qualitative aspects of FEMA's relationship with the States and applicants. Benefits include: Reduced processing time; reduced administrative costs; more efficient allocation of resources; reduction in job redundancy; improved tracking; fewer de-obligations; and fewer appeals.

HAZARD MITIGATION GRANT PROGRAM

*Question.* FEMA's Sec. 404 hazard mitigation grant program is funded through the disaster relief program. States are entitled to receive funds equal to 15 percent

of FEMA disaster relief assistance in the state. Currently, more than $1.4 billion remains unobligated. Has there been an increase in section 404 mitigation activity since the federal cost share was raised and the formula was revised to increase the amount made available?

Answer. There has been a significant increase in Section 404 hazard mitigation grant program activity since the Federal cost share was raised and the formula was changed to increase the amount of funding made available. The reasons for this have been two-fold: First, States and Territories receive an increased amount of total available dollars for mitigation. For example, in the Midwest Floods alone, total available HMGP funds increased by approximately five times. Secondly, changing the cost share from 50 percent federal to 75 percent federal funding has made grants more attainable for State and local participants.

It is essential to note that nearly 67 percent of the remaining funds (approximately $776 million) stems from three unique disaster situations:

—The State of California accounts for approximately $642 million of this figure. In that State, numerous sizable disasters (including multiple flood events, wildfires, and the most costly disaster in U.S. history, the Northridge Earthquake) have occurred in the last several years. This tremendous workload has greatly strained the State's ability to identify, review, and process available monies in a timely fashion to meet mitigation, response and recovery needs.

—Similarly, the Virgin Islands accounts for approximately $50 million of the outstanding HMGP balance, due in large part to the fact that the islands were struck by two powerful Hurricanes—Marilyn and Bertha—within a year.

—Finally, Hurricane Fran, which caused Presidentially declared disasters in seven States, accounts for another $84 million in unobligated funds. The outstanding balance of HMGP funds for these disasters is not unusual, in that the event occurred only recently (last Fall).

These three unique situations account for over $776 million of the unobligated HMGP funds. They are not due to recurring programmatic obstacles.

It also should be noted that FEMA has taken substantial action in recent years to improve the management of the HMGP in order to speed the obligation of funds. For example, this fiscal year an additional $3 million was made available to States to improve implementation of Hazard Mitigation Programs. To improve National Environmental Policy Act (NEPA) compliance reviews, FEMA published an expanded list of NEPA categorical exclusions which have significantly reduced the time required for environmental review for approximately 50 percent of the projects submitted by States for HMGP funding. FEMA has developed a new process to streamline project cost-effectiveness determinations which emphasizes quick determination of lower and upper bound estimates to allow State staff to focus resources on potentially eligible projects. In addition we have provided substantial new training sessions to both FEMA Regional staff and State Hazard Mitigation staff. All of these activities are expected to greatly speed the HMGP process in the future.

*Question*. FEMA is proposing a new $50 million pre-disaster mitigation program. Why would this program be used more by the states than mitigation activities authorized under sec. 404?

Answer. Section 404 funds are only available if a disaster has been declared; therefore, mitigation actions are generally limited to declared area(s).

This means that States must absorb a cost-share associated with mitigation activities at the very same time that they must identify resources to pay for the tremendous costs of disaster response, which is often prohibitive. Through the Pre-Disaster Mitigation Program, however, communities will be able to thoughtfully plan and budget for their contribution to eligible risk reduction activities. They will also have the time to work with other elements of the community, including the private sector, to leverage additional funding and resources against their own. These advantages will help ensure that Pre-Disaster Mitigation Program funds are used effectively to reduce our nation's risk from natural hazards.

*Question*. FEMA funds some mitigation work using public assistance funds (sec. 406) and sometimes in combination with sec. 404 funds. Is this appropriate and in accordance with the Stafford Act? What is FEMA doing to clarify whether mitigation should occur under sec. 406 versus sec. 404?

Answer. When Congress amended Public Law 93–288, the Disaster Relief Act of 1974, in 1988 (upon enactment of Public Law 100–707) the legislation was amended to: (1) add new section 404, which authorized hazard mitigation funding; and (2) revise the authority of what is now Section 406 to add the reference at subsection 406(e)(1) that prescribed hazard mitigation criteria.

The use of Section 406 alone or in combination with Section 404 is both appropriate and consistent with explicit Stafford Act authorities. Section 406(e)(1) allows for "hazard mitigation criteria" to be included in funding determinations for discrete

public assistance projects. A Section 404 project may affect several Section 406 public assistance projects, as well as the community at large. If a Section 404 project ties into and augments the mitigation elements of a Section 406 project, it is neither an inconsistent nor an inappropriate use of Stafford Act funding. There is no indication in the Stafford Act that these two hazard mitigation authorities cannot be used in conjunction with each other, and FEMA believes that it has implemented these two hazard mitigation authorities consistent with the congressional intent behind their simultaneous enactment.

To clarify the use of these two authorities, FEMA has issued policies that distinguish between the mitigation scenarios in which either Section 404 or 406 can be invoked. FEMA has also assembled a 404/406 Mitigation Task Force, which will provide additional clarification as specific instances require.

*Question.* When will you submit your legislative proposal for this new $50 million plan? How many projects do you anticipate will be funded, and what will be the criteria for participation? How will you maximize the use of this relatively modest sum for mitigation projects?

Answer. The legislative proposal will be included in the package containing cost eligibility changes that we are planning to send to you in July of this year. We will try to fund as many projects as we can in order to achieve some balances among the geographic spread, the types of risks and hazards, and the categories of mitigation measures carried out. We will be testing criteria for participation with the pilot effort this fiscal year, and proposed criteria will be formalized through regulations authorized by the legislation being drafted. In addition to criteria that relates to risk reduction requirements, we will also be looking at leveraging non-Federal resources in order to maximize the modest amount of funds requested.

*Question.* We understand that mitigation saves money, but we have seen no quantification of the extent to which mitigation reduces future disaster relief costs. Has an assessment been done to provide some baseline for cost-savings? If not, when will it be done?

Answer. Over the last several years, the need for an assessment of mitigation cost savings has become apparent. At this time, we are in the process of planning a project to perform a macro-economic analysis of mitigation. We plan to initiate a study of the cost-effectiveness of a broad spectrum of mitigation measures (such as building codes and acquisition/relocation projects) before the end of fiscal year 1998. Because this analysis will take time to complete, we commissioned a smaller report on the cost-effectiveness of mitigation that is scheduled for release in the next two weeks. This report includes a brief explanation of many of the types of mitigation which have produced useful effects. It also includes 16 "case studies," which were chosen to provide multi-hazard examples of a variety of mitigation techniques across a wide geographical distribution. A copy is attached for your reference.

PERFORMANCE PARTNERSHIP AGREEMENTS

*Question.* FEMA's budget includes $147 million for state grants through the so-called "performance partnerships" agreements. Two years ago, when FEMA first proposed performance partnerships, the agency indicated there would be new criteria for awarding state grants. Please explain what those criteria are.

Answer. A driving force behind the Performance Partnership Agreement (PPA) is to make performance a consideration in the awarding of annual pre-disaster grants to the states. The PPA is a five-year agreement designed to implement the strategic planning concepts of GPRA. A June 1, 1998 deadline has been set for all state PPA's to be modified to reflect measurable performance indicators.

FEMA Regions continue to consider annual performance as criteria for annual cooperative agreement grant funding. Risk, need and special projects also continue to be considerations in how funds are divided among the states.

*Question.* What are the specific performance measures states are held to under these new performance partnership agreements, and how are states held accountable for meeting these measures? How are high-performing states rewarded?

Answer. Performance measures under the PPA are jointly developed by the State and FEMA. The measures vary depending on the unique circumstances of the state and objectives set as part of that states strategic planning. Eventually, states will be held accountable by making long-term PPA performance a criteria for annual CA funds. In addition, FEMA is exploring options for rewarding states for pre-disaster performance in mitigation and increasing their disaster capability through post-disaster grants. Another option under consideration is a more favorable cost-share on public assistance disaster grants.

*Question*. How are performance partnerships used to encourage states and local governments to undertake mitigation activities to reduce the risk of losses to public facilities?

Answer. The PPA is developed around the four functions of emergency management: preparedness, mitigation, response and recovery. Each function has partnership and state objectives and strategies for accomplishing the objectives. Mitigation is a major focus of the PPA objectives and strategies and is an area FEMA is working to encourage through future incentives.

*Question*. Other than reducing administrative burdens and providing a single funding stream, how are the performance partnerships any different from the old grant process under the comprehensive cooperative agreements?

Answer. The PPA was developed to replace FEMA's comprehensive cooperative agreement (CCA) process. Under the PPA, states have more flexibility in the use of funds in exchange for accountability of performance; while the states, not FEMA, propose how the funds will be spent, annual activities must clearly reflect state priorities and needs and contribute to the achievement of long-term state objectives in the PPA. Under the old CCA, FEMA determined how the funds were to be spent and there were no established long-term objectives that annual CCA activities worked towards accomplishing.

*Question*. What is the status of FEMA's ability to assess states' capacities to respond to disasters? What means do you use to make these assessments? Has the I.G. deemed whether your method is adequate and appropriate? How can you rely on states' self-assessments to make determinations on capabilities? In your opinion, how many states currently have a reliable assessment of their capability to respond to disasters?

Answer. FEMA is currently developing the capability assessment process to assess the capabilities of State and local governments to effectively respond to catastrophic disasters. The Program Elements Guide (PEG) is the principal tool that FEMA is currently developing to accomplish this task. This tool categorizes emergency management activities into the following 13 components: (1) Laws and Authorities; (2) Hazard Identification and Risk Assessment; (3) Hazard Management; (4) Resource Management; (5) Planning; (6) Direction, Control and Coordination; (7) Communications and Warning; (8) Operations and Procedures; (9) Logistics and Facilities; (10) Training; (11) Exercises; (12) Public Education and Information; and (13) Finance and Administration. It was recently favorably reviewed by representatives from the National Emergency Management Association (NEMA), an organization of State Directors of Emergency Management. It is anticipated that the PEG will be finalized by April 21, 1997. The Inspector General's office has participated in the briefings on capability assessment and the implementation schedule.

The capability assessments will be completed for all States during fiscal year 1997, and FEMA will submit a report to the Congress by October 1, 1997, on the status of State capabilities and the Emergency Management Partnership to respond to major disasters. FEMA will not be relying entirely on State self-assessments. It is our intention that there be substantial Federal involvement in as many of the State assessments as possible this year, given timing, staffing and funding restraints. Many of the States have conducted capability assessments over the course of time, but these have not been developed in a standardized format; therefore, it is difficult to draw substantive conclusions on these efforts. The goal of the FEMA capability assessment process is to create an assessment system that will be acceptable to all States and will result in a reliable and consistent national evaluation of the state of readiness in the nation.

GPRA

*Question*. Under the Government Performance and Results Act (GPRA), FEMA is required to develop a mission statement and strategic plans. I'm very concerned with mission creep at FEMA over the last several years. The mission creep is evident in the fact that there's been a 54 percent increase in the number of major disaster declarations in the 5-year period fiscal year 1992–96, compared to fiscal year 1987–91. Where FEMA used to confine itself to responding when state and local governments were overwhelmed, FEMA's new role seems to be about being all things to all people. What process are you using to develop your mission statement and strategic plan, and who are you consulting with to ensure it meets the intent of Congress?

Answer. FEMA was one of the first federal agencies to develop a strategic plan back in December 1994. The strategic plan's mission statement and its goals were developed even earlier and served to guide the agency's 1993 reorganization. In its June 1996 report, entitled, "Executive Guide—Effectively Implementing the Govern-

ment Performance and Results Act," Congress's General Accounting Office (GAO) highlighted FEMA's reorganization around its mission statement and strategic goals.

In 1993, FEMA's new Director refocused the agency on meeting its mission and aligning its activities to better serve the public. As part of its first agency-wide strategic planning effort, FEMA comprehensively reviewed its programs and structures and initiated a major reorganization in November 1993. By more closely aligning its activities, processes, and resources with its mission, FEMA appears today to be better positioned to accomplish that mission.

As a result of experience gained through the GPRA pilot phase FEMA realized that agency-wide training on the concept of GPRA and strategic planning would be necessary. To date, training has been conducted for over 400 managers and staff agency-wide. The training effort includes a two-day workshop in each of the 10 regions for our regional staff and our State partners.

FEMA is in the process of updating its strategic plan, and making it more precise, measurable and consistent with GPRA requirements. FEMA established a GPRA Steering Committee, made-up of representatives from throughout the agency, to oversee the process. FEMA is not proposing any changes to its current mission statement (in fact, the Congressional Institute and National Academy of Public Administration which trained congressional staff on GPRA used FEMA's mission statement as a model). Our six strategic goals have been reduced to three draft goals which we believe represent FEMA's statutory mandates.

A significant part of FEMA's mission is to lead and support the national emergency management system. Therefore, performance measures for FEMA's draft new strategic goals will reflect how well the national system is performing. We believe the information we need to measure our performance already exists in the public and private sector. We expect to have draft performance measures identified by May 1997.

FEMA's primary stakeholders are the State governments and the State emergency managers and the National Emergency Management Association in particular. We have discussed the direction of our strategic planning efforts with the States and NEMA and shared draft documents. We will continue to consult with them throughout the process and ask for final comments before the plan is finalized. FEMA has also shared its draft strategic plan with Federal agencies such as EPA, Transportation, SBA, Army Corps of Engineers, etc., to ensure a complimentary approach to GPRA.

FEMA has already briefed two congressional committees and will be making more consultations to discuss all aspects of proposed changes to the agency's strategic plan, including, options for performance measures.

The Agency is on track to have the updated plan and new performance measures, as well as the GPRA required fiscal year 1999 Performance Plan completed this summer in advance of the September 30 deadline.

CSEPP

*Question.* In January, GAO presented preliminary findings of a review conducted on CSEPP, a joint Army/FEMA program to improve emergency response capabilities in the communities near the chemical weapons storage sites. GAO found that while $420 million has been appropriated to date, local communities still lack critical items 9 years after the program's inception and there are long-standing management weaknesses at the federal level, including unclear roles and responsibilities.

Why has so little progress been made with the $420 million spent to date? What is the status of negotiations with the Army over the future of the CSEPP program. What role does FEMA believe it ought to play in this program? Who should be held accountable for the lack of progress in this program?

Answer. FEMA has discussed with GAO the validity of the draft report's finding that emergency preparedness capability has been unduly slow in the communities surrounding the eight chemical weapons storage sites. We anticipate that the final report may differ from the draft somewhat, since it is demonstrable that considerable progress has been made in CSEPP emergency preparedness. States are significantly better prepared to respond to a chemical incident today than even two years ago. Alert and notification systems have been installed to warn the public, in-place communications systems will allow on- and off-post responders to communicate effectively, and, through Federally-funded public education programs, the public is continually informed of protective action measures to be taken in case of a chemical accident.

FEMA recognizes that not all anticipated emergency preparedness equipment has been purchased and/or installed, and, as a result, full programmatic capability has

not yet been attained in all sites. However, many sites have completed the purchase and installation of necessary equipment, and are nearing the maintenance phase. While not all equipment is in place, operational capability has been attained for most benchmark items at each site. Thus, while capability will undeniably improve, employable capability exists in nearly every case.

There have been issues requiring resolution between FEMA and the Department of the Army regarding the day-to-day management of CSEPP. However, while we recognize that perceptions exist in some quarters that the issues are affecting program delivery, both FEMA and the Army have worked very closely to ensure the uninterrupted delivery of program services. Given the different operating styles of FEMA and the Army, it is reasonable to expect periodic problems to arise with program delivery. As they have with previous programmatic or stylistic differences, both FEMA and the Army have been taking positive steps toward resolving those issues and believe that they will be resolved shortly for the maximum benefit of the program. It is worthy of note that FEMA Director James Lee Witt and Secretary of the Army Togo West are personally involved in resolving these issues expeditiously.

ARSON INITIATIVE

*Question.* In the fiscal year 1997 operating plan, FEMA proposed a reprogramming of $775,000 for participation in the President's National Arson Prevention Initiative, which was established in response to the rash of church burnings last year. Can you tell me precisely what FEMA's role is in this initiative, what has been accomplished so far, and whether additional funds are requested in fiscal year 1998 to continue participating in the President's initiative?

Answer. In June 1996, the President asked FEMA Director Witt to lead a National Arson Prevention Initiative and coordinate available public and private sector resources to combat arson nationally. Although prompted by the tragic series of fires at houses of worship, the Initiative is intended to address the larger problem posed by arson in this country. FEMA has been joined in this effort by the Departments of Justice, the Treasury, Housing and Urban Development, Education, Agriculture, and the Corporation for National Service. Governors in States most affected by the church burnings have rallied in their support of arson prevention and they, with local leaders throughout the country, have been strong partners in the Initiative.

Each of the major law enforcement, crime prevention, education, church, and voluntary groups and organizations have been tremendous contributors to the Initiative. In addition, eight national fire service organizations pledged their memberships in the fight against arson including the Alliance for Fire and Emergency Management (International Society of Fire Service Instructors), the International Association of Arson Investigators, the International Association of Black Professional Fire Fighters, the International Association of Fire Chiefs, the International Association of Fire Fighters, the National Fire Protection Association, the National Association of State Fire Marshals, and the National Volunteer Fire Council.

Recognizing that arson is a local problem that requires local solutions, FEMA's role in the Initiative has been to facilitate community arson prevention efforts and apply public and private resources to their best effect. Provided for the record is a copy of "Fire Stops With You—The National Arson Prevention Initiative: Six Month Report to the President." This report details the interagency and intergovernmental accomplishments of the Initiative from June through December 1996.

The Initiative entered a new phase in January. FEMA is piloting the creation of community-based arson prevention coalitions in three cities in the Southeast and one city in the Northeast. The cities that are participating include Macon, Georgia, Nashville, Tennessee, Charlotte, North Carolina, and Utica, New York. The experiences of these communities in forming a coalition and actively engaging their residents in arson prevention will serve as models for communities across the country. Three of the pilot cities will "launch" their coalitions nationally as part of a series of events occurring during National Arson Awareness Week, May 4–10, 1997. As part of that week, arson prevention grant awards of $12,000 will be made to every State ($5,000 to each territory and the District) to encourage and support Statewide arson public education and awareness effort.

Efforts on the full range of arson prevention topics also continue. In partnership with the Department of Justice, a series of Statewide arson prevention conferences will be conducted over the next several months in seventeen States. Additionally, development of training and public education materials on juvenile firesetters is underway. Between July 1996 and March 1997, the National Arson Prevention Clearinghouse received nearly 15,000 telephone calls and distributed approximately half a million packets of information.

The National Arson Prevention Initiative has resulted in a framework to support State and local governments that capitalizes on available resources from a variety of sources and has resulted in increased understanding and awareness of the problem. Individuals have begun to recognize the impact that arson has on their lives and have become involved in preventing it within their communities. This Initiative will be institutionalized and will serve as the umbrella strategy for the Agency's overall arson efforts within the U.S. Fire Administration. Funding requested for fiscal year 1998 will continue to support vital training, public education, and technical assistance efforts, as well as the continuance of the National Arson Prevention Clearinghouse and the coalition-building efforts.

MT. WEATHER EMERGENCY ASSISTANCE CENTER

*Question.* In the fiscal year 1997 operating plan, FEMA indicated the need to renovate and expand building 430 at MWEAC to accommodate a rapidly expanding demand for additional training class rooms and conference areas, at a cost of $1.67 million. At the time, FEMA said "we are currently evaluating options to fund this requirement later this fiscal year. Should sufficient funds be available, we will forward to you the required reprogramming request." What is the status of your evaluation? Do you anticipate a reprogramming request? Are any funds requested in fiscal year 1998 for renovations at Mt. Weather? When will there be a long-term plan for the Mt. Weather facility, and why should any renovations take place prior to the completion of such a plan?

Answer. The Office of Financial Management is conducting a mid-year review of all FEMA spending plans. Upon completion of the review, a final determination will be made as to the distribution of fiscal year 1997 funds held for prior year obligations. The expansion of the Mt. Weather Training Center has already been determined a high priority candidate for any funds that may become available. If funds are determined to be available, a reprogramming request will be forwarded.

Mt. Weather has been selected as the initial participant in FEMA's Working Capital Fund (WCF) and in fiscal year 1998, will complete the transition to a fully operational mode, continuing to provide office, conference, training and billeting accommodations for FEMA and other Federal agencies. Currently Mount Weather supports seven internal customers and several external Federal tenants. While an aggressive marketing plan has been implemented to attract new customers, the fiscal year 1998 anticipated income will not fund extensive building renovations. Some building maintenance projects such as roof repair, road maintenance, painting and concrete repair are planned and will be funded through the collections of the WCF.

Mt. Weather has become a hub of emergency activity since it was restructured in 1993 to support the all-hazards mission of the agency. A population explosion has occurred during the last 4 years, moving from a daily workforce of about 400 employees to one of more than 900. The Conference and Training Center (CTC) activity has expanded dramatically from fewer than 6,000 students/conferees in 1993 to more than 18,000 in fiscal year 1996.

Much of this growth is attributed to the decision to locate fixed disaster operations at Mt. Weather. Six major disaster functions have been established at the Facility that include: the National Processing Service Center-Virginia; Satellite Teleregistration Center; Disaster Finance Center; Disaster Information Systems Clearinghouse; Disaster Personnel Operations Division; and the Agency Logistics Center. On a day-to-day basis, Mount Weather supports about 250 new disaster CORE positions that did not exist in 1993.

This changed environment requires careful strategic planning to support current operations and to accommodate the growth that is likely to occur with the implementation of an aggressive marketing effort. As part of the strategic planning, a capital expansion plan, based upon an assessment of the Agency's operational requirements over the next 5 years, has been prepared. This plan includes six projects that will provide additional space and capability to include major building renovations, expansion of training facilities and infrastructure improvements.

NATIONAL PROCESSING CENTER

*Question.* What is the status of the new National Processing Center in Hyattsville, MD? How many staff have been hired at Hyattsville, and how many additional staff are anticipated?

Answer. The Hyattsville National Processing Services Center build-out is nearing completion and FEMA and the General Services Administration (GSA) are entering into final lease negotiations. While these deliberations are taking place, FEMA has initiated recruitment actions for 66 of the 112 baseline staffing positions at the facility and has established a Human Resources Management recruiting office on-site.

The Human Resources Management Office will also be responsible for the recruitment of surge staff that will provide additional operational staffing capacity on a disaster by disaster basis. Occupancy of the facility will occur as soon as the lease between FEMA and GSA is signed, which is expected to occur sometime during the month of June.

INEEL

*Question*. In the fiscal year 1997 operating plan, FEMA proposed funding for the Idaho Nuclear Engineering Laboratory (INEL) out of funds set aside by the Congress for pre-disaster mitigation activities, even while the conference report stipulated that no such funds be spent until the agency develop a comprehensive pre-disaster mitigation plan. Even more astounding in the agency's proposal was the fact that in answers to questions proposed by Congressman Jerry Lewis last year, FEMA said, "We advised [INEL] that they should discuss research with the National Science Foundation. With limited resources for hazard mitigation, it is our opinion that additional research and testing facilities are not needed at this time. The money could be better spent by taking existing research and putting it into application for use by state and local governments to reduce the damages to life and property from natural disaster." Why did FEMA reverse itself and propose funding INEL's research proposal? What is the status of the International Multi-hazard Mitigation Partnership to be created by INEL, and what is this partnership intending to accomplish?

Answer. FEMA's response to Chairman Lewis' question regarding the Idaho National Engineering and Environmental Laboratory (INEEL) was based on an initial proposal presented by INEEL. Later, INEEL changed the proposal significantly, to emphasize the concept of a private—public partnership to promote full-scale environmental hazard simulation. INEEL informed FEMA that many private sector potential partners were prepared to make significant contributions to this initiative if FEMA would step forward and provide an initial financial contribution. FEMA technical staff carefully analyzed the revised proposal and consulted many of our mitigation partners. The analysis and discussion with our partners, underscored some of the benefits of a full-scale wind storm simulation facility.

FEMA recognizes the need to move towards a greater emphasis on disaster loss mitigation through the development of policies and procedures that may either prevent future losses or reduce their magnitude. FEMA has also identified the need for a greater coordinated effort in the area of Private-Public partnerships. This need is greatest in the area of windstorm mitigation. The FEMA—Department of Energy agreement is designed to result in the creation of a new mitigation partnership called the International Multi-Hazard Mitigation Partnership (IMMP).

Since the benefits derived under the IMMP will be diffused across a broad spectrum, FEMA expects INEEL to identify a broad spectrum of technical and financial support. The Agency's continued involvement in the IMMP is predicated on a broad coalition being constituted. It expects that its financial contribution will be leveraged against the contributions of others, particularly the private sector that will reap much of the benefit from the testing that will occur at this facility. FEMA's future financial contributions should not be the primary source of funding for the IMMP or the construction and use of any proposed testing facilities.

In an effort to advance the IMMP, FEMA agreed to provide an initial financial contribution of $1 million dollars. To date, INEEL has contributed a similar amount of funds, in both cash and services. To ensure accountability, FEMA is providing funding in four installments. Presently, the IMMP has received and spent $731,000. The remaining funding of $269,000 is proposed to come from the fiscal year 1997 Pre-disaster Mitigation Program. These funds have recently been obligated based on Congressional concurrence with FEMA's proposed Predisaster Mitigation Program spending plan.

MOBILE ASSETS

*Question*. Last year, FEMA identified 10 actions considered to be of highest priority for upgrading its mobile response actions. While no funds were requested by the administration, the Congress appropriated $3.4 million in fiscal year 1997 for the first of these 10 actions. What is the total cost associated with the remaining "high priority" actions, and are any funds requested in fiscal year 1998, and if not, why not? How much is requested to maintain the Mobile Emergency Response System (MERS)? What is the status of the baseline capability assessment of MERS, which was due at the end of calendar 1996? What did the baseline assessment reveal? What are the costs in the next 5 years required to maintain adequately the MERS system?

Answer. The projected cost associated with the remaining high priority actions is $18.85 million. While the fiscal year 1998 budget submission was made prior to the initiation of the baseline assessment of the MERS, the annual budget requested $5.75 million for the Operation and Maintenance of the MERS. This supports the costs of electricity, water, heating oil or gas, trash collection, vehicle/equipment maintenance, spare parts, maintenance contracts for unique equipment and systems, facility maintenance, and training.

Following completion of the initial phase of the baseline capability assessment of MERS in December 1996, a summary of the assessment was provided in the Report to Congress. The second phase of the baseline assessment will continue in 1997 and the results will be used to reprioritize any request included in the fiscal year 1999 Budget submission. The baseline assessment determined the priority for the replacement/upgrade of MERS vehicles and equipment. In addition, a list of vehicles and systems no longer required to support the FEMA All-Hazard Mission was developed. These vehicles and systems are to be declared excess to the needs of MERS and offered to other elements within FEMA and through GSA to other Federal Departments and Agencies for their use.

The projected O&M budget of $5.75 million is adequate to maintain the MERS if limited or no replacement/upgrade of vehicles or systems is accomplished. To insure the replacement/upgrade of those systems identified by the baseline assessment is accomplished over the next 5 years, the additional funds estimated are: fiscal year 1998: $5.15M; fiscal year 1999: $5.45M; fiscal year 2000: $4.75M; fiscal year 2001: $3.5M. Following these replacements/upgrades, an additional $1.5 million per year should be programmed to allow for the replacement/upgrade of other vehicles, equipment, or systems that will become non-maintainable.

---

## QUESTIONS SUBMITTED BY SENATOR CAMPBELL

### FIRE SUPPRESSION DECLARATION

*Question.* I understand that it is FEMA's responsibility to make a Fire Suppression Declaration to get aid to communities in fighting wildfires. Is it possible to streamline this process so communities can get the help they need in a shorter amount of time?

Answer. The Fire Suppression Assistance program provides assistance to any State for suppression of any fire on publicly or privately owned forest or grassland which threatens such destruction that would lead to a major disaster declaration.

The entire process, described below, is accomplished in an expedited or streamlined manner, normally by telephone, and many times a FEMA decision is rendered within an hour upon receipt at national headquarters. FEMA can respond to a State's request for Fire Suppression Assistance 24 hours a day.

The program is administered on a real time active "incident fire" basis, under which the Governor or authorized representative submits a request for assistance to FEMA's Regional Director at the time a "threat of a major disaster" exists. The Region contacts headquarters with the State's request, the Regional recommendation, and the U.S. Forest Service's Principal Advisors assessment of the fire situation. FEMA then evaluates the following factors in order of priority to determine the approval of a Fire Suppression Assistance grant:

—The location of the fire and continued threat to life and improved property.

—The existence of high fire danger conditions: humidity, wind speed and direction.

—The availability of State and local resources.

—The existence of two or more fires in the same area.

To facilitate program delivery, FEMA has updated the Fire Suppression Assistance manual, which should be ready for distribution in June of 1997.

### PUBLIC-PRIVATE PARTNERSHIPS

*Question.* Following the Buffalo Creek wildfire and the flooding that resulted in Colorado, I understand that FEMA produced some educational materials for homeowners. The JANUS group paid for production while Rotary Clubs distributed the material. Is FEMA looking at this excellent model of a public-private partnership in other areas of its responsibility?

Answer. For the past year and a half, FEMA has been actively exploring opportunities to partner with the business sector to develop and distribute educational materials and better coordinate and communicate with the business sector during and after disasters. Director Witt has sponsored several roundtable discussions with business and constituency groups to explore partnership opportunities. FEMA is

currently working with insurance industry representatives on several task forces seeking ways we can work together to provide better service to mutual customers, and is in the final stages of developing a local-based emergency management pilot project designed to include the business sector in emergency management planning and operational activities at the local level. FEMA has also worked closely with the business sector in managing donations of goods and services to communities and individuals impacted by disasters.

DROUGHT ASSISTANCE

*Question.* During and after the devastating drought in the Southwest, it seemed to take a long time to get relief to communities and individuals in need. Has FEMA considered changing its policy on dealing with drought problems as rapidly as it already does with higher profile emergencies such as hurricanes?

Answer. Unlike the immediate devastation usually caused by a hurricane, droughts develop and inflict damage over an extended period of time. In response to the Drought of 1996, FEMA formed a task force to coordinate Federal response to drought affected States by identifying needs, applicable programs and barriers to programs, and outlining suggestions of the participants for improved drought management. At the urging of the Western Governors' Association (WGA) Drought Task Force, a Memorandum of Understanding was signed early this year which identifies the United States Department of Agriculture (USDA) as the lead Federal agency on drought issues. USDA volunteered to be the lead agency because agriculture is most severely affected by drought. Currently, a Coordinating Council is being formed by the WGA, which will include other relevant Federal agencies, including FEMA, to address drought on an event-by-event basis and to also establish long-term planning, mitigation and response policies for droughts.

HAZARDOUS MATERIALS

*Question.* Some of the nation's major highways run through Colorado. This places our citizens at risk as hazardous materials routinely move through our state. Do you feel confident that FEMA is prepared to deal with emergencies resulting from accidents involving these hazardous materials?

Answer. Initial response to a hazardous materials incident is a state and local government responsibility. In Colorado, the State Highway Patrol has responsibility for hazardous materials response. This organization is well trained and equipped to respond to most hazardous materials transportation emergencies. In the event that an incident should be severe enough to require a presidential disaster declaration, FEMA, in partnership with the Environmental Protection Agency (EPA) would respond under the Federal Response Plan. The Federal Response Plan has been successfully used in past disasters and I am confident that it would save lives and property in the case of a severe hazardous materials spill.

---

## QUESTIONS SUBMITTED BY SENATOR CRAIG

LANDSLIDE POLICY

*Question.* Please clarify what policy, if any, the federal government has related to disaster assistance for landslides. Please differentiate between FEMA assistance during an incident period as it relates to actual slide damage and FEMA assistance either during or after the incident period as it relates to potential land slides and damage.

Answer. The FEMA policy related to assistance when landslides occur, has remained substantially unchanged since 1984, although it was recently (November 30, 1995) republished in a format that FEMA has adopted for all disaster assistance program policies. The policy is best explained as it relates to two different types of work, emergency protective measures, and permanent repair of damaged facilities.

Eligible emergency protective measures are defined as work necessary to alleviate an immediate threat to public health and safety or improved property that is the result of a slide caused by the declared disaster. When such a slide results in an immediate threat, that threat may be reduced by removal of slide material or by temporary stabilization. Such emergency work may also be completed if the disaster event causes an immediate potential of a slide that would damage improved property or endanger public health and safety. Emergency protective measures could also include work completed during the incident period to reduce immediate threats. The basic eligibility question to be answered in both situations is whether the threat is a result of the disaster and not a condition that existed before the disaster.

When an eligible facility has been damaged by a landslide, work to stabilize the slide is only eligible when it is integral to the eligible repair of the damaged facility and when the site is not unstable due to a pre-existing condition. The applicant must first correct any pre-existing condition before the facility repair will be approved by FEMA.

FEMA COORDINATION OF LONG TERM FLOOD RECOVERY PLANS

*Question*. As I understand it FEMA is currently responsible for coordinating the response phase of a disaster. Is any agency responsible during the recovery phase of federal disaster efforts? In your opinion, could FEMA be the lead agency in the recovery phase? If so, how would you direct your agency to handle the responsibility?

Answer. FEMA has been working with the primary Federal departments and agencies involved in the Federal Response Plan (FRP) to determine if, and how best to integrate recovery into the FRP. The complexity arises from the significant difference between response and recovery operations. Different authorities, Federal agencies and programs are involved during disaster recovery. The full recovery effort may take a considerable period of time, and continue long after FEMA field operations have been concluded. The State and local role in recovery is much more critical because that is where mitigation priorities are determined and implemented.

FEMA has the clear responsibility under statute and executive orders to lead and coordinate the Federal response to an emergency or major disaster. Normal disaster response includes many of the recovery efforts we now engage in for the full range of disasters, including floods. At present, FEMA addresses recovery issues on a case by case basis with our State and Federal counterparts to determine: (1) what recovery efforts are appropriate; (2) who should participate; and (3) what resources are available. FEMA's long-term goals to reduce the impacts of future disasters can often be implemented by focusing on increased mitigation efforts during the recovery phase. In addition, during this year's Midwest floods, FEMA was asked by President Clinton to establish a Long-Term Recovery Task Force to coordinate the Federal effort. This approach may serve as a model for our future efforts; however, to do this effectively additional personnel and financial resources should be required. Normally, FEMA would transition out of the recovery process as quickly as possible to free up critical manpower and resources for other disasters, and to permit State and local authorities to assert themselves in carrying out their recovery responsibilities.

We acknowledge that specific Federal programs may continue as an integral component of the long-term recovery effort. These programs would operate under their own authorities and program guidelines.

PRE-DISASTER MITIGATION/INTERNATIONAL MULTI-HAZARD MITIGATION PARTNERSHIP

*Question*. The President's budget request includes funding for pre-disaster mitigation. Would you please tell the subcommittee what specifically that funding is intended to accomplish?

Answer. Specifically, our priority goal is to reduce the impact of natural hazards on public facilities eligible for disaster assistance under the Stafford Act.

*Question*. Do you feel there is a need for additional technical knowledge to help understand the science of how physical structures react to disasters?

Answer. FEMA recognizes the need to improve our understanding of how structures react to natural hazard events. Improved understanding may either prevent future losses or reduce their magnitude. For this reason, FEMA's National Mitigation Strategy (NMS) has identified applied research and technology transfer as one area for further work.

*Question*. Do you feel there is a role for the national laboratories in the pre-disaster mitigation program? What is that role?

Answer. The Department of Energy's National Engineering and Environmental Laboratories have a long history of developing and transferring state-of-the-art technologies throughout the public and private sectors. The laboratories have been involved in studying the effects of natural hazards for many years, such as the effects of high winds and earthquakes on nuclear facilities. Currently the laboratories have numerous initiatives underway in the area of natural hazards mitigation. As examples, the Idaho lab is implementing the International Multihazard Mitigation Partnership, intended to promote full-scale simulation of natural hazards on structures and the Oak Ridge lab has formed a partnership with the Roofing Industry Council On Wind Impacts (RICOWI) to study the effects of high winds from tornadoes hurricanes on roofing systems.

*Question.* Could you explain FEMA's position on the need for full-scale testing of physical structures against simulated environmental phenomena?

Answer. There is a broad agreement, both inside and outside government, that a full scale wind test facility may improve our understanding of the performance of buildings, structures, and infrastructure when exposed to high winds associated with hurricanes, coastal storms, gust fronts, thunderstorm downbursts, and limited tornado scenarios.

FEMA and the Department of Energy have an inter-agency agreement to establish a mitigation partnership called the International Multi-Hazard Mitigation Partnership (IMMP). The IMMP shall work to achieve relevant goals of the National Mitigation Strategy, specifically the coordination of applied research and the implementation of research results and public education. The IMMP will emphasize wind hazard mitigation and utilize the Idaho National Engineering and Environmental Laboratory (INEEL) as its applied research instrument.

Since the benefits derived under the IMMP will be diffused across a broad spectrum, FEMA and INEEL believe there must be a broad coalition of technical and financial support. FEMA's continued partnership with INEEL is predicated on such a broad coalition being established. Therefore, FEMA expects that its financial contribution will be leveraged against the contributions of others and that the agency's future financial contributions will not be the primary source of funding for the IMMP or the construction and use of any proposed test facilities.

---

## QUESTIONS SUBMITTED BY SENATOR MIKULSKI

### MARYLAND FLOOD TASK FORCE REPORT

*Question.* What commitments if any has FEMA made to assist with the projects recommended in the Task Force Report?

Answer. FEMA has committed to working with the State of Maryland in order to define statewide mitigation priorities relative to the projects and measures identified in the Western Maryland flood mitigation report. Prioritization will be based upon costs, projected benefits, the effectiveness of the measures, and any other criteria which the State believes need to be included. This is a critical step in the process of carrying out the mitigation measures and actions delineated in the report since the estimated cost of them is, at this point, well beyond even those resources available nationwide.

*Question.* What time-line has FEMA committed to providing any assistance to Maryland for projects outlined in the Flood Task Force Report?

Answer. Two of the projects have already been approved for hazard mitigation grant program funds: (1) the floodproofing of the Hancock waste water pumping station and (2) floodproofing of the Friendsville water treatment plant.

*Question.* Will any of the localities be eligible for a greater match from FEMA than 75 percent?

Answer. Matching for hazard mitigation grants is set at 75 percent Federal/25 percent State by the Stafford Act.

### FLOOD INSURANCE CLAIM PROCESSING

*Question.* What steps have been taken in the last year by FEMA to improve flood insurance claim processing?

Answer: While there are no published industry guidelines, the private insurance industry accepts average claims closure of 60 days. They expect 90 percent of all claims to be closed in 90 days. The NFIP processing compares very well with private industry. Our record is above private industry standards when you consider NFIP's losses are much more severe and more difficult to adjust than windstorm losses sustained by private industry in similar events.

In fact, private industry standards for claims check processing is 7 days from receipt of proof of loss. The average claims check processing time for the NFIP is 3 days. Additionally, the standard for claims adjustments averages 45 days from receipt of notice of loss. The NFIP average is 31 days.

Ninety-two percent of the National Flood Insurance Program (NFIP) policies are written by private insurance companies participating in the Write Your Own (WYO) Program under an agreement with the Federal Insurance Administrator. The agreement calls for the WYO Companies to handle flood insurance as they would any other line of business.

When a claim is presented by the policyholder, the WYO company handles the claim as if it were any other line of business they write. Depending on their own rules, they will allow the agent to assign the claim to an independent adjuster or

the company will make the assignment themselves, either to an independent or staff adjuster.

The other 8 percent of the NFIP policies are handled by the NFIP Servicing Agent, National Con-Serv Incorporated (NCSI). These flood policies are written through an insurance agent, but there is no private company involved. The Federal Insurance Administration (FIA) has staff on site to oversee the claims and policy operations.

At the time of a disaster, the WYO companies or NFIP Servicing Agent decide whether to set up a claims office in the area of the flooding. This generally depends on how many claims each entity expects from the flooding event. Some of the WYO Companies have contracts with independent insurance adjusting firms to handle the flood claims; others rely on the local agents' knowledge of competent local adjusters to handle the claims; and others assign the claims, or some of them, to staff adjusters.

It should be remembered that the NFIP is an insurance operation and must deal with an insurance contract that spells out what is covered (paid) and under what circumstances. An adjuster is assigned to determine what coverage is available to the insured, what the true damages are, and what the values of the damaged items are. In order to do this, the adjuster must write a building estimate and help the insured compile a damaged contents list. All of this activity takes some time and may require several visits to the same structure to conclude the loss.

When a homeowner reports a fire claim under his homeowners policy, it is assigned to an adjuster, generally a staff adjuster, who has a backlog of about 30 claims, assigned to him over a period of a month. In a flood catastrophe, the adjuster is assigned about 30 claims, or more, all at once. Some structures are not ready to be inspected, either because they are not completely dry or actually have flood waters in them. Some dwellings are secondary dwellings, and the insureds are not in the area. In hurricane catastrophes, some areas are inaccessible, either because the roads/bridges are washed out or it is too dangerous for anyone other than emergency or repair people to enter.

The FIA has Computer Sciences Corporation under contract to act as the NFIP Bureau and Statistical Agent. One of their duties is to employ experienced, knowledgeable property insurance "general adjusters" (GA's) to be in the field to help the company and the NFIP Servicing Agent adjusters with claims handling in general and with specific coverage questions. The GA's also conduct reinspections of claims to determine if the rules and regulations of the NFIP are being followed.

Also, the FIA has seven claims professionals who oversee various aspects of the claims process and are available to give guidance to the companies, contractors and adjusters. They also handle claims appeals that deal with technical issues. The FIA staff go into the field to help in the overall claims process and to give support to the Federal Coordinating Officer (FCO) at the Disaster Field Office (DFO). The FCO is also supported by the NFIP Bureau and Statistical Agent staff in the aftermath of a Presidentially declared disaster.

Finally, to improve NFIP claims processing, the Bureau and Statistical Agent holds adjuster workshops all over the United States. The adjuster workshops teach what is expected by the NFIP on claims handling processes and also claims coverage. Some of these workshops are done in conjunction with workshops put on by the larger independent claims adjustment firms or for staff adjusters of individual WYO Companies. In fiscal year 1996 FEMA conducted 33 workshops.

MITIGATION EFFORTS

*Question.* Director Witt, like you, I am an advocate for strong mitigation efforts that take a proactive approach to reducing the impact from nature's fury. At last year's hearing, you mentioned that FEMA was working on Memoranda of Understanding (MOU's) with the States to establish a statewide mitigation plan within each State where they identify their high-priority mitigation projects. What is the status of the MOU's? What are the State plans looking like—are the standards consistent with FEMA's view of what standards States should meet?

Answer. After last year's hearings, a workgroup composed of both FEMA and State representatives met and determined that there are several existing FEMA/State documents beyond MOU's that can serve as tools for resolution and clarification of issues. These documents range from formal long-term agreements (such as the Performance Partnership Agreements), to extremely detailed operational documents (such as the Hazard Mitigation Grant Program Administrative Plan).

Because of the existence of these other tools, FEMA and the National Emergency Management Association decided to leave it up to each State whether or not they wish to develop a separate MOU with FEMA in order to capture high-priority miti-

gation projects and other critical pieces of information that could streamline State mitigation activities. FEMA's Regional Offices are currently working with the individual States to determine their interest in developing separate MOU's.

*Question.* FEMA's budget request for fiscal year 1998 includes $50 million for a pre-disaster mitigation program. Has the program been authorized? If not, what is the status of FEMA's attempt to get the program authorized? Will the program take into account lessons learned in past mitigation work by FEMA and local communities? What are the eligibility criteria for communities seeking funding? Will communities that have received post-disaster mitigation money in the past be eligible for funds? Has FEMA done an analysis of how much money could be saved by doing needed pre-disaster mitigation?

Answer. There is presently no statutory authority for the pre-disaster mitigation program for which FEMA has requested $50 million in fiscal year 1998 appropriations. However, by July 4 we will be submitting draft legislation to amend the Stafford Act to authorize a pre-disaster hazard mitigation program.

In designing the Pre-Disaster Mitigation Program (using the $2 million already provided by the Congress in fiscal year 1997), FEMA considered lessons learned from Federal, State and local mitigation activities in order to ensure the success of the program. For example:

—Historically, the most successful mitigation actions have been those which involved persons and organizations from across the community. That is why the Pre-Disaster Mitigation Program will encourage communities to bring all the necessary players to the table from the very beginning to develop a consensus regarding mitigation needs and priorities.

—In many areas, the support of the private sector has been critical in gaining the necessary resources and support for mitigation work, and in ensuring that the subject mitigation actions protect the economic health and vitality of target communities. That is why FEMA's Pre-Disaster Mitigation Program will place such a heavy emphasis on bringing in private sector partners (such as insurance companies, financial institutions, and area manufacturers) at an early stage.

—Communities often have difficulty managing unreasonable administrative requirements associated with Federal programs. At FEMA, we are committed to reducing paperwork and bureaucratic red-tape in the delivery of this new mitigation program.

—Both past experience and research have demonstrated that mitigation is a "dollars and cents" issue (i.e., incentives are necessary to effectively encourage mitigation at the State and local levels). This is the reason why the Pre-Disaster Mitigation Program will leverage State, local and private sector contributions with Federal project funding.

While these are but a few examples of how we plan to use "lessons learned" from past experience, they demonstrate that we are trying to avoid past mistakes and maximize our successes in implementing this new program at FEMA.

The communities selected to participate in the program will be chosen according to a number of factors, including: their level of risk; the degree to which the proposed pre-disaster mitigation actions and processes will reduce that risk; and the ability to transfer the processes, approaches, or technologies to similar at-risk communities throughout the United States. In addition, communities will be selected according to the proposed level of commitment of State, local, and private sector partners (i.e., time, funding and resources brought to the table). This should help maximize the "bang for the buck" realized for each taxpayer dollar invested through the Pre-Disaster Mitigation Program. Communities will not be disqualified or lowered on the priority list simply because they have experienced past disasters and have received prior mitigation funding from FEMA.

The actual level of cost-savings resulting from this program are difficult to quantify at this time, since the return on the Federal investment will be highly project-specific, and will vary upon the amount of non-Federal contribution to each activity. However, we have found that mitigation measures return, on average, more than $2 for every $1 invested. This demonstrates that an investment in pre-disaster mitigation now will result in real cost-savings over the long-term to the American taxpayer.

FITNESS FOR DUTY/PREPAREDNESS TRAINING

*Question.* What is the status of FEMA's work with states on developing a plan to evaluate state capability that gauges fitness for duty, and not just written reports?

Answer. FEMA is currently working with our partners to develop a formal system that will enable us to assess the effectiveness of State and local capabilities. The goal is to create an assessment system that will be acceptable to all States and will result in a reliable and consistent national evaluation of the state of readiness in the nation. Our intent is to have the capability assessment tool tie into and complement the States' strategic plans developed as a part of their performance partnership agreements developed cooperatively by FEMA and the State and local emergency management departments and agencies. We expect that we will soon be able to provide an objective appraisal of their capabilities and progress.

It is intended that States will use these Mitigation Assistance funds to enhance their capabilities to implement mitigation, and provide assistance to local governments to implement mitigation. As a result, these funds should have minimized any impact that reduced SLA support would have on State mitigation programs.

*Question.* The budget request asks for $11.3 million less for Preparedness, Training and Exercises. I understand that some of this is due to limiting development, revision, and dissemination of field courses. How will this impact the ability of FEMA to ensure we have adequate fitness for duty training?

Answer. Nearly 80 percent of the $11.3 million reduction results from the redistribution of funds that support the Mt. Weather Emergency Assistance Center from the Preparedness, Training and Exercises activity to users/customers of the facility. A shift to decentralized counter-terrorism programs results in the reduction of approximately 17 percent of the total reduction. Lastly, less that a two percent reduction applied to training activities. This $200,000 reduction will somewhat reduce centrally-developed materials which support field delivery of training, and will defer two course development/revision projects. FEMA has not taken any steps that will reduce fitness for duty training, either for our State and local partners, or for in-house personnel.

*Question.* The Maryland Emergency Management Agency and the National Emergency Management Association have contacted me about the negative impact experienced at the local level by reductions in the State and Local Assistance Grants (SLA). My understanding is that there was a $2.9 million cut to SLA for deficit reduction purposes, and that FEMA has requested additional money for the account to bring it back up to fiscal year 1996 levels. What impact has the cut had on States' response and recovery and hazard mitigation efforts?

Answer. FEMA's fiscal year 1998 budget request for SLA is at the same level as the fiscal year 1997 appropriation. This request includes funding in support of implementing counter-terrorism activities and improving HAZMAT emergency preparedness. FEMA also has several other programs that provide assistance, directly or indirectly, to State and local governments for the development and enhancement of emergency management capabilities.

The decrease in SLA funds should have had no impact on States' mitigation efforts. In fiscal year 1997, FEMA provided an additional $3 million to States for the purpose of enhancing their capabilities to implement hazard mitigation efforts. These Mitigation Assistance funds were distributed equally among all 56 States and Territories. Additionally, FEMA provides risk-based funds to States that have an identified hurricane or earthquake hazard (in fact, during 1997 FEMA doubled the funding it provides to hurricane-prone States). Both of the Hurricane and Mitigation Assistance funds are provided to States as elements of the Mitigation Assistance Program, which is part of the FEMA/State Performance Partnership Agreement/Cooperative Agreements (PPA/CA) process.

Our current approach emphasizes development of partnerships with State and local emergency management departments and agencies that will allow greater flexibility to better meet their needs. FEMA provides grants to the States and encourages the locals to work through their States to ensure a coordinated effort in working towards the objectives identified in their Performance Partnership Agreements. These partnerships are based on the expectation, and the confidence, that giving the States greater control over the process will enable the States and their subdivisions to perform more effectively and efficiently. We are developing a nationwide capability assessment process in fiscal year 1997 which will allow us to provide an objective appraisal of the level of capability among all pieces of the emergency management partnership nationwide, and our progress.

DISASTER RELIEF (FEMA REPORT ON REDUCING COSTS)

*Question.* During consideration of last year's VA-HUD bill, FEMA was directed to submit a report within 120 days proposing steps to reduce disaster relief costs. The draft of this report was delivered to staff last week. What has FEMA done to reduce disaster relief costs? How effective have these efforts been in reducing costs?

Answer. As indicated in FEMA's March 13, 1997 Report to Congress entitled "Improving Management Controls in the Disaster Relief Fund," major steps have been taken in the administration of disaster programs that have not only helped contain costs, but have also resulted in better and more timely service to our customers. Chief among these steps is the central processing of our Human Services Programs. We no longer establish Disaster Application Centers throughout the declared areas or a separate processing center for each disaster—which can be very costly in terms of staff and equipment. Rather, disaster victims are encouraged to call a toll-free number to register for assistance, and all applications are processed at one of three National Processing Service Centers. In a similar fashion, a single Disaster Finance Center has been established to aggregate disaster payments and reduce overhead costs.

Administrative improvements have been accomplished in many other areas to streamline our operations and reduce costs. These include the establishment of a Disaster Resources Board to review and monitor funding for those support functions needed to support all disasters, and reinvigorated efforts for disaster debt collection and disaster close-outs.

FEMA also has a major initiative underway to streamline the Public Assistance Program, and has proposed measures to reduce program costs by limiting eligibility for certain types of assistance. These measures were addressed in a separate March 13, 1997 Draft Report to Congress, entitled "Reducing Disaster Relief Expenditures." That report has been transmitted to our State partners in emergency management for review and comment.

However, a number of the recommendations from that report are already in the process of being implemented.

—A final report with recommendations to streamline the Public Assistance Program will be issued by late April, and measures to streamline the program will be pilot tested by early summer.

—A proposed rule was published in October 1996 to limit appeals from three to two. FEMA is now in the process of preparing a final rule to reduce the number of appeals.

—A massive training effort was undertaken in the past year to train Public Assistance Inspectors to ensure that the program is implemented efficiently and consistently. Over the past two years over 1,000 inspectors have been trained.

—On February 20, 1997 FEMA issued an interim policy stating that trees and shrubs would no longer be an eligible cost under the Public Assistance Program. On March 10, 1997 a formal policy disallowing trees and shrubs was sent to all FEMA regions and to States for review and comment.

—FEMA is in the process of preparing legislative changes that would implement many of the other recommendations of the draft report.

It is difficult to calculate the cost savings of many of our administrative or program improvements, though we do have specific cost figures on some of these measures. FEMA, in a study two years ago, calculated that using teleregistration rather than Disaster Application Centers for the Human Services Programs has reduced the cost per application from $59 to under $14. FEMA's accelerated disaster close-out effort has resulted in closing out 415 Human Services Programs, with a reconciliation of more than $1.8 billion in the Disaster Relief Fund. Of this amount nearly $403 million in obligation authority was returned to the Fund.

Measures to streamline the Public Assistance Program, and to restrict types of assistance, are still in the early stages of development and implementation so their effectiveness has not yet been measured. Cost-savings could potentially be great if substantive measures are taken to refocus this program on essential governmental facilities and the protection of life and property.

*Question.* Which of the options for reducing costs outlined in the FEMA report can realistically be implemented in the next 1–2 years?

Answer. Those recommendations which do not require statutory change could be implemented in the next 1–2 years.

*Question.* What is FEMA's time-line for implementing the options noted in the FEMA report?

Answer. Those recommendations which can be done without statutory change can be implemented within the next 1–2 years. FEMA will also be submitting a legislative proposal by July, 1997 to implement those recommendations which require statutory change.

*Question.* What is the status of work on clarifying the criteria for disaster declarations?

Answer. In the Fall of 1996, FEMA established a Panel on Disaster Cost Savings to examine, among other things, the issue of declaration criteria. Upon analysis and consultation with our partners, we have concluded that the high costs in the disas-

ter program are driven by the number of large major disasters and broad eligibility criteria, rather than the number of declarations.

We believe that the current declaration criteria continue to be appropriate, and, in order to reduce costs, have placed major focus on streamlining activities and targeting eligibility. However, factors used to judge severity, magnitude and impact are being updated to reflect current dollars and procedures for conducting Preliminary Damage Assessment are being reengineered.

CHEMICAL STOCKPILE EMERGENCY PREPAREDNESS PROGRAM

*Question.* FEMA and the Army have been working jointly on the Chemical Stockpile Emergency Preparedness Program (CSEPP). I know there has been some dispute over the management of the program, and the funding of some programs and activities that didn't necessarily fit the mission of the program. What is the status of FEMA's involvement with the CSEPP program?

Answer. There have been issues between FEMA and the Department of the Army regarding the day-to-day management of CSEPP that require resolution. However, while we recognize that there is a perception in some quarters that the issues are affecting program delivery, both FEMA and the Army have worked very closely to ensure the uninterrupted delivery of program services. Given the different operating styles of FEMA and the Army, it is reasonable to expect periodic problems to arise with program delivery. As they have with previous programmatic or stylistic differences, both FEMA and the Army have been taking positive steps towards resolving these issues and believe that they will be resolved shortly for the maximum benefit of the program. It is important to note that FEMA Director James Lee Witt and Secretary of the Army Togo West are personally involved in resolving these issues expeditiously.

*Question.* What are some improvements that you think both the Army and FEMA could make to ensure that we are getting the most bang for the taxpayers buck, and to make sure we are sticking to the mission of the program?

Answer. With respect to program funding, of over $536 million requested to date by the States to support the program, only $240 million has been provided. In many instances, this difference is the direct result of the Federal government's insistence that only projects consistent with CSEPP policy be funded. Thus, while in some instances States and local governments continue to make budgetary requests which exceed programmatic needs, FEMA is confident that strong program oversight has minimized the approval of these excess or extravagant projects.

NATIONAL DAM SAFETY PROGRAM

*Question.* The National Dam Safety Act was signed by the President in October. This program to help States prevent dam failures seems like a prudent investment toward protecting people and property below dams, especially considering there are over 1,800 unsafe dams in the country. There are 55 high hazard dams in Maryland alone—many of which don't have effective emergency warning plans. The issue of effective warning systems was raised after the flooding at Port Deposit, Maryland last year. What is FEMA doing to implement the Dam Safety Act Program?

Answer. After the National Dam Safety Act was signed into law, FEMA developed a work plan, which established a mechanism and process for implementing the new legislation. The work plan consists of nine sections:

—*Establish an Interagency Committee on Dam Safety (ICODS).*—ICODS was originally established in 1980 under Executive Order 12148 and operated under a Charter published in the Federal Register on August 28, 1985. Now that the National Dam Safety Act has codified the ICODS, the group's charter is being revised to reflect its new status.

—*Develop and Complete the Implementation Plan for the Dam Safety Program.*—A task force, including representatives from FEMA, the Departments of Agriculture, Defense and Interior, the Federal Energy Regulatory Commission, and the States, has been formed to accomplish this initiative. To date, the Task Force has met three times and the assignments made to members have, to date, progressed on schedule. The Task Force is on course for completion of the implementation plan by the deadline established in the National Dam Safety Act.

—*Training for State Dam Safety Officials.*—An ICODS training subcommittee has been revived, and members are now working on developing a list of priorities for new training courses. In addition, FEMA recently developed two new courses: (1) Dam Safety Emergency Action Plan Development for Dam Owners; and (2) Dam Safety Emergency Action Plan Exercise Development for Dam Owners. If the funds that were authorized for training are appropriated by the Congress, the dissemination of new training opportunities will escalate.

—*Establish Goals, Objectives, Priorities, Schedules, and Regulations for Implementing the National Dam Safety Program*.—The Task Force, in a largely parallel effort, is developing information on goals, objectives, priorities and schedules necessary to prepare the needed regulations. All activities are on schedule at this time.

—*Provide Recommendations on Establishment of the National Dam Safety Review Board*.—The Act specifies the composition of this Board, and the Task Force is in the process of developing recommendations to present to the FEMA Director on the feasibility, desirability and viability of forming this Board.

—*Develop and Implement a Program of Technical and Archival Research*.—This assignment is being accomplished at two levels: (1) the ICODS Subcommittee on Research has been established and will identify research needs both at the Federal and non-Federal level; and (2) the National Performance of Dams Program (located at the Center on the Performance of Dams at Stanford University) has been established as an outreach mechanism to obtain information and data on dams.

—*Prepare a Biennial Report to Congress on the Status of the National Dam Safety Program for Fiscal Year 1996–97*.—FEMA has been providing biennial reports to the President and Congress since 1980. This process will continue. The 1996–97 report will be ready to transmit to Congress and others by December 31, 1997.

—*Report to Congress on the Availability of Dam Insurance*.—We have solicited information from the Federal Insurance Administration and the Insurance Industry, and are in the process of analyzing available data. This report should be ready by April 30, 1997.

—*Develop a Staffing Plan for Implementing the National Dam Safety Program*.—At this time, two FTE are dedicated to the Program. No change in the staffing level is anticipated for fiscal year 1998.

*Question*. I understand that one dam failure last year alone caused $5.5 million in damages and the death of one woman. What amount of disaster relief funds have been spent by FEMA as a result of dam failures over the past five years?

Answer. While dam failures may have resulted from some incidents, they have not been the principal cause of any recent major disaster declarations. FEMA's charting of the causes of natural disasters generally reflects the weather event (hurricane, storms, tornadoes, etc.) which was the initial cause of the declaration.

COORDINATION EFFORTS WITH COUNCIL ON ENVIRONMENTAL QUALITY (CEQ)

*Question*. I know that FEMA works in partnership with other agencies. Working in partnerships with other agencies can help produce a more effective and efficient government approach to disaster readiness, response, recovery, and mitigation. What is FEMA doing to coordinate with the Council on Environmental Quality (CEQ) to make sure that environmental mandates don't impede relief efforts?

Answer. FEMA has historically coordinated with CEQ as we developed improved environmental compliance methodologies or as complex and controversial issues have arisen. Of special note is the fact that CEQ recently hired an individual to act as primary point of contact with FEMA. This provides a mechanism to better interact with CEQ as we continue to improve the process to evaluate and minimize environmental impacts of our activities while ensuring environmental mandates do not impede relief efforts.

FEMA, in coordination with CEQ, has undertaken several significant initiatives recently which have helped reduce potential impediments of environmental compliance. The most significant initiatives include:

—FEMA has revised its environmental regulations at 44 CFR adding to its list of Categorical Exclusions activities requiring minimal environmental review and documentation. This has reduced environmental review requirements by as much as 50 per cent for some Agency programs.

—FEMA has provided a National Environmental Policy Act (NEPA) training course to over 300 FEMA and State Emergency Management staff Nationwide to enhance the capabilities of individuals involved in environmental review. This has served to provide the State Agencies who administer many of FEMA's programs with the ability to identify and resolve environmental issues early in the relief effort or project development phase.

—FEMA has hired seven Regional Environmental Officers to coordinate environmental issues in the field. This is a significant step in the process of decentralization of environmental review that will allow for improved coordination between FEMA, other federal agencies, and State and local officials on environmental issues related to disaster relief efforts.

*Question.* I suggested to CEQ Chairman Katie McGinty at their hearing in February that FEMA, CEQ and other relevant agencies develop SWAT teams that can rapidly determine emergency provisions in environmental regulations so that relief efforts won't be unduly delayed while FEMA is trying to save lives. What can you commit FEMA to doing regarding this coordination of SWAT teams? What can FEMA do to involve CEQ in its simulation maneuvers?

Answer. It is very important to note that provisions within the Stafford Act and FEMA's regulations are in place to ensure that environmental requirements will never delay FEMA's immediate efforts to save life or property. The issue of streamlining environmental review requirements by utilizing emergency provisions and through coordination with other Federal agencies is an issue which is more relevant in FEMA undertakings for which there is sufficient time to plan and evaluate an action.

One of the primary responsibilities of the recently created position of Regional Environmental Officer is to coordinate environmental issues immediately following a disaster event. This includes being located at the Disaster Field Office to coordinate with relevant agencies such as the Environmental Protection Agency, the Army Corps of Engineers, and the U.S. Fish and Wildlife Service in order to streamline implementation of the requirements of the environmental laws that these agencies administer. FEMA will continue to further define the roles of the Regional Environmental Officers and work with CEQ to ensure coordination of relevant agencies, an approach which is consistent with the "SWAT" team concept.

## SUBCOMMITTEE RECESS

Senator BOND. The subcommittee stands in recess until April 8, at 9:30 a.m., when we will take testimony from the EPA.

[Whereupon, at 10:58 a.m., Tuesday, March 18, the subcommittee was recessed, to reconvene at 9:30 a.m., Tuesday, April 8.]

# DEPARTMENTS OF VETERANS AFFAIRS AND HOUSING AND URBAN DEVELOPMENT AND INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1998

**TUESDAY, APRIL 8, 1997**

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, DC.*

The subcommittee met at 9:34 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Christopher S. Bond (chairman) presiding.

Present: Senators Bond, Burns, Shelby, Craig, Mikulski, Leahy, Lautenberg, and Boxer.

## ENVIRONMENTAL PROTECTION AGENCY

**STATEMENT OF CAROL M. BROWNER, ADMINISTRATOR**

**ACCOMPANIED BY:**

**FRED HANSEN, DEPUTY ADMINISTRATOR**
**SALLYANNE HARPER, ACTING CHIEF FINANCIAL OFFICER**
**AL PESACHOWITZ, ASSISTANT ADMINISTRATOR, OFFICE OF ADMINISTRATION AND RESOURCES MANAGEMENT**
**JONATHAN Z. CANNON, GENERAL COUNSEL**
**DAVID GARDINER, ASSISTANT ADMINISTRATOR, OFFICE OF POLICY, PLANNING AND EVALUATION**
**ROBERT PERCIASEPE, ASSISTANT ADMINISTRATOR, OFFICE OF WATER**
**TIMOTHY FIELDS, ACTING DEPUTY ASSISTANT ADMINISTRATOR, OFFICE OF SOLID WASTE AND EMERGENCY RESPONSE**
**MARY NICHOLS, ASSISTANT ADMINISTRATOR, OFFICE OF AIR AND RADIATION**
**STEVE HERMAN, ASSISTANT ADMINISTRATOR, OFFICE OF ENFORCEMENT AND COMPLIANCE ASSURANCE**
**LYNN R. GOLDMAN, ASSISTANT ADMINISTRATOR, OFFICE OF PREVENTION, PESTICIDES AND TOXIC SUBSTANCES**
**ROBERT J. HUGGETT, ASSISTANT ADMINISTRATOR, OFFICE OF RESEARCH AND DEVELOPMENT**
**WILLIAM A. NITZE, ASSISTANT ADMINISTRATOR, OFFICE OF INTERNATIONAL ACTIVITIES**
**NIKKI L. TINSLEY, ACTING INSPECTOR GENERAL**
**JULIE ANDERSON, ACTING ASSOCIATE ADMINISTRATOR, OFFICE OF CONGRESSIONAL AND LEGISLATIVE AFFAIRS**
**MARY LOUISE UHLIG, ACTING ASSOCIATE ADMINISTRATOR, OFFICE OF REGIONAL OPERATIONS AND STATE/LOCAL RELATIONS**
**PHILIP LANGRIGAN, EPA CONSULTANT, CHILDREN'S OFFICE**

**J. CHARLES FOX, ASSOCIATE ADMINISTRATOR, OFFICE OF REINVENTION**

**W. MICHAEL MC CABE, REGIONAL ADMINISTRATOR, EPA REGION, III**

**KATHRYN S. SCHMOLL, COMPTROLLER**

**ELIZABETH CRAIG, DIRECTOR, BUDGET DIVISION**

OPENING STATEMENT OF CHRISTOPHER S. BOND

Senator BOND. Good morning. The subcommittee will come to order.

We meet this morning to take testimony from the Environmental Protection Agency on its fiscal year 1998 budget request. The request totals $7.6 billion, an increase of $845 million, or 12 percent over the current budget. Today, we are pleased to welcome EPA Administrator Carol Browner, Deputy Administrator Fred Hansen, and other EPA officials.

While most agencies in the VA-HUD portfolio have budget requests which would maintain current services at best, EPA would enjoy increases in virtually every programmatic area under the President's proposal with the exception of clean water State revolving funds. Not surprisingly, I do not believe EPA's proposal is realistic in the budget environment in which we are operating.

Overall spending available to this subcommittee for Veterans Affairs and Housing and Urban Development, EPA, NASA, and other areas may not be significantly more than a freeze at the current year's level. Yet to maintain current health care service for veterans, at last $500 million above last year's level would be needed. About $5.6 billion would be needed to maintain existing low-income housing contracts scheduled to expire next year, and a total of $5 billion will be needed to meet FEMA disaster assistance requirements this year and next year. Clearly, we have to be looking closely at all aspects of EPA's budget requests to ensure that dollars are targeted to those areas offering the largest opportunity for risk reduction.

Quite frankly, EPA's budget proposal is disappointing. Last year, Deputy Administrator Hansen testified that EPA's fiscal year 1998 budget process would be based on a new system, bringing together risk-based planning, budgeting, and accountability. But there is no evidence that such a process was employed to develop the budget for the coming year. It seems to me that no hard choices were made to discontinue lower priority programs or to reduce costs through program efficiencies.

Despite internal EPA analyses dating back to 1987 that found that Superfund sites rank relatively low in risk compared to such problems as air pollution and pesticide residue on foods, EPA's budget proposes a 50-percent increase, $700 million for the Superfund program. The proposal seems based entirely on a campaign commitment made by the President in Kalamazoo, MI, to double the pace of cleanups. If EPA were truly applying a relative risk methodology to its budget process, I am convinced this program would not merit a 50-percent increase.

While the Superfund budget would increase dramatically, the clean water State revolving fund, a program which works well and for which tens of billions of dollars are needed, would be cut by

$275 million. Rumor has it that EPA offered up this program to be cut as an offset to the Superfund increase. If additional funds are to be found within our allocation, my highest priority within EPA will be to restore the cut to the clean water SRF program.

Now, the General Accounting Office has done a little study in the high-risk series. It has found that Superfund is 1 of 25 Government programs which is high risk, subject to fraud, waste, abuse, and mismanagement. It is not just the GAO. This program has been criticized by many, many in this room, I dare say, over the years because it lines the pockets of lawyers while sites get studied and studied and studied. Legislative reforms have been blocked. But until legislative reforms are enacted, I cannot support any increase in this program. If we get this program reformed so it cleans up sites, call me immediately. I can be reached day or night when a proposal to reform Superfund is adopted.

EPA's fiscal year 1997 budget showed outyear budget projections of $1.4 billion through the year 2000 for the Superfund program. Yet now we are told $2.1 billion is imperative for each of the next 2 years. Indeed, top officials at EPA have been quoted in the press warning about the dire consequences of not fully funding the President's request for a 50-percent increase. Why all of a sudden this program became EPA's highest priority has not been fully explained. How EPA would manage to spend prudently 50 percent more in the program has not been explained. Which specific sites will be funded, at what cost and when has not been explained. It appears that the methodology used to support the Superfund request is flawed, and uses inflated cost assumptions, according to the Congressional Budget Office.

Finally, I note that skepticism abounds over the Superfund proposal. Senator Chafee, chairman of the authorizing committee, has stated:

> That Superfund remains a fundamentally flawed program. Cleanups still take too long, many cleanups are still too costly, and there is still too much litigation. It would be unwise and irresponsible for Congress to authorize a significant increase in funding for this program until we complete the task of reauthorization and can be sure that the money will be used to accelerate the pace of cleanup and protect our citizens.

And the Association of State and Territorial Solid Waste Management Officials, in testimony, states:

> We do not know whether there is enough pending work for the full $700 million in additional funds requested in fiscal year 1998, nor that the infrastructure exists to spend it effectively.

Other items in EPA's budget request rekindle debates of the past. For example, $149 million is requested for the climate change action plan, a 73-percent increase over current spending even while the global environment management initiative recently reported that voluntary programs are not affected. In its recent report, GMI stated programs which depend for their success on cooperation, voluntariness, and trust still do not fare well. To date, the Green Lights Program, which would enjoy the largest proportion of the requested increase, has achieved a relatively small amount of greenhouse gas reductions and participants have not upgraded as much floor space as anticipated.

Also, an earmark of $100 million is requested for Boston Harbor, more than double what was approved in the VA-HUD bill last year. While the clean water State revolving funds which go to every State on a fair share basis would be cut by $275 million. Several new initiatives have been proposed with scant detail, including an urban livability initiative and a new right to know initiative announced by the President in Kalamazoo.

Outside of the budget proposal, we have other concerns. While this committee has strongly supported efforts to provide more flexibility and reduce oversight on the States, and the National Academy of Public Administration recommended 2 years ago, recent reports raise concerns about EPA's relationship with the States. While EPA promised there would be a new partnership, it appears that the marriage is on the rocks. Ms. Browner, the Environmental Council of States told you after your interview with the New York Times in December, in which you criticized State enforcement efforts:

> States are very concerned about what appears to be a retreat on your part from the partnership relationship which has been carefully, and in some instances painfully built over the past 4 years. State commissioners are disappointed to be the objects of your apparent lack of trust.

In addition, there are significant problems with EPA's so-called reinvention efforts. Ms. Browner, in our hearings 2 years ago you told Senator Mikulski:

> We would like nothing better than to see an integration of our underlying statutes. I believe we can achieve almost exact same results through programs such as the common sense initiative. We want to focus our energy on those kind of concrete on-the-ground changes. Our reinvestment effort CSL project XL will in the end achieve as important results as the kind of legislation which you speak of.

Unfortunately, it appears that project XL and the common sense initiative hardly have lived up to the promises made. Earlier this year the petroleum industry withdrew from the common sense initiative, and the auto industry apparently said it would remain a part of CSI until work it has done is completed. CSI participants have told us that little has been accomplished in the way of meaningful reforms, and too much emphasis has been placed on reaching absolute consensus.

As to project XL, which has been called the centerpiece of the administration efforts to reinvent environmental regulations, 2 years ago EPA claimed it would be launching 50 initiatives in 1995. Yet today there have been only three project approvals. Bill Sugar, senior director of environmental affairs for Anheuser Busch in St. Louis, one of the eight pilot XL projects selected in November 1995, has said we could not seem to get the out of the box thinking we wanted to get out of them.

EPA recently announced the creation of an Office of Reinvention. We look forward to hearing about how this new office will reinvigorate these initiatives and get them on the track. I would note that the enterprise for the environment project under Bill Ruckelshaus' stewardship, is nearing completion. EPA has been an active participant in that project, and I particularly commend Fred Hansen for the many hours he has devoted to it. E4E is intended to offer recommendations for an improved environmental management system, including legislative recommendations. We are anxiously

awaiting the final report and recommendations of E4E, and hope to see positive bipartisan recommendations to address some of the current problems.

In closing, it is my hope that EPA's appropriation can be resolved in an expeditious nonpartisan manner, and that we can work together to address some of the problems we are seeing and achieve the most effective allocation of resources. We look forward to your testimony, and now it is my pleasure to turn to my ranking member, Senator Mikulski.

STATEMENT OF BARBARA A. MIKULSKI

Senator MIKULSKI. Thank you very much, Mr. Chairman, and I want to welcome Administrator Browner here today, and her team. I note that this is Ms. Browner's fifth appearance before this subcommittee, and I want to take this opportunity to thank her for her efforts and her leadership over the last 5 years.

I also note that Ms. Browner's tenure has not been uneventful. Budget cuts and Government shutdowns have not made it easy to do her job or easy for the people who work at EPA to do their job. In addition, often a climate of hostility toward environmental protection in the Congress as a whole, particularly the authorizing committees, has not necessarily been the most constructive climate to move our agenda. I believe that EPA has survived these challenges, and has taken many initiatives to make the long-term changes that are necessary to keep up with a changing world.

I would agree that we need to do more in better management and more in better use of technology. I happen to believe that environmental protection goes hand in hand with economic growth and job creation. Protecting our environment does create jobs, and not destroy them. New economic opportunities and markets flow from environmental protection services and technology which hopefully generate jobs in our own country, and even give us an opportunity for global exports with both exporting our knowledge, our services, and our technology, an area I would like to pursue in our questions.

Also, Maryland has benefited from the Environmental Protection Agency in the bipartisan support for the Chesapeake Bay, going back to Richard Nixon, to Senator Mathias, who really is the father of the Bay Program, until now. Cleaning up the Bay is not only good environment, but it is sure very good for Maryland economy. Watermen, commercial fishermen, economic development, and a host of other businesses depend upon a clean bay to earn a living. The Chesapeake Bay Program is an investment in cleaner environment and a healthier economy.

I also want to talk about two other aspects in our questioning that I think will generate jobs, and then, also, another to save lives. Administrator Browner, I look forward to hearing from you more on the brownfields initiative. The brownfields legislation was recently passed by my own Maryland General Assembly. We are now looking forward to how brownfields could be an absolute tool to helping clean up some of the toxic areas around Baltimore that would then leave us new land, and, therefore, new opportunity in the very empowerment zone to attract jobs.

We also note the President's child's health initiative, which though might not generate jobs, sure saves lives. We note again in my own home State of Maryland the rise in lung and respiratory illness gives me enormous pause, particularly the rise if asthma among children and the onslaught of adult asthma among adults is really of concern. This does not seem to have a genetic base, but it certainly does seem to have an environmental base. And for the little kids in Baltimore that we are trying to get in school and having them read by the time they are in the third grade, we want to make sure that this is an initiative that we want to hear more about, and is not just a photo op, just not a press release, and it is not a throw-a-line at press conference, but a real initiative.

I must say that in the budget, though, I am deeply concerned about the cut in the State water revolving fund. This has been a very important tool when I was both the chairman and now as ranking. We get more requests for special projects from our colleagues in the Senate around the need to have more water infrastructure, and as you know, Ms. Browner, infrastructure in our cities is really aging.

So we look forward to working with you. We want to look at how we can reduce costs, and we also want to hear more about project XL, the commonsense initiative, and how you have continued to implement the NAPA project.

So I welcome you, fellow or sister resident from downtown Tacoma Park, one of the garden spots in Maryland, and look forward to your testimony.

Senator BOND. Thank you very much, Senator Mikulski.

Senator Burns.

STATEMENT OF CONRAD BURNS

Senator BURNS. Thank you very much, Mr. Chairman. I do not have much of a statement. It would not make any difference anyway. There are a couple of areas that I cannot get my hands on. I got in late last night, and I cannot get my hands on them, but I am going to look at them very shortly. We had a list of all this money that goes to foreign countries to do something that comes out of the EPA. I do not know what it does, but I know there is a chunk of it. I would rather spend it in this country, to be honest with you.

I am sensitive to ground water. I want to give you a little figure here, and I will tell you why. We in the West get very sensitive about our water. I got a daughter that graduates medical school in June. Her advice to me right now is very economical; however, she says after June 7 it goes up sharply. But she said, you know, the increase in the average life span of an American has gone up rather sharply since World War II. The medical profession cannot take but maybe 5 or 10 percent credit for that advance. The rest of it goes as how we handle our water, because more life-shortening diseases are waterborne than any other disease. So we are sensitive to that, and I want to look at it.

You have also requested 100 more people in each one of your regions for EPA people, I think, and this is what I read in a newspaper, I think, the Casper Star. Well, anyway, it is always a big surprise, but the President has got it in his budget, and that

should be you, I would imagine. I would want to change the emphasis of enforcement to people who help in compliance rather than a hammer. I want to carrot people, I do not want hammer people. And if I heard anything on small business hearings, and we had two of them in Montana and Wyoming over this last break, it is that.

There are people who are willing to comply, but will not say much to anybody for the simple reason the way they have been treated in the past, and we have got to turn that around some way or another, and I do not know how we do it, but that is where I am going to place my emphasis, and I will get a hold of this other stuff later on.

Thank you very much, Mr. Chairman

Senator BOND. Thank you, Senator Burns.

Senator Lautenberg.

STATEMENT OF FRANK R. LAUTENBERG

Senator LAUTENBERG. Thank you, Mr. Chairman. I am pleased to see Administrator Browner here to talk about the EPA budget for 1998. I believe that the President's budget places the proper priority on protecting the environment by increasing funds for several Environmental Protection Agency programs. It also follows through on his pledge to offer a balanced budget while advancing the goals that Americans share in continuing programs to protect our Nation's environment.

In poll after poll you will see that people will say I am willing to pay more if it goes to environmental cleanup. I want to know that it goes directly there, but they are willing to do it because that is the one legacy that all of us agree—that we ought to be giving our children a better environment in future generations.

I am particularly impressed by the fact that the President's budget recognizes the importance of speeding the cleanup of our Nation's most hazardous wastesites. After 16 years, the Superfund Program is now primarily in the construction rather than the study phase, and since construction is generally more expensive than studies, the need for funding is growing. Level Superfund spending would mean slower cleanups and a hampered ability to protect our neighborhoods and ground water from hazardous waste.

The President's budget provides an additional $700 million for Superfund. It is a 50-percent increase, bring the total Superfund spending to over $2 billion. This increased spending is the first phase of funding that will allow an additional 250 Superfund sites to be cleaned up by the year 2000. We will double the pace of that cleanup. The fact that the President's budget seeks to spend more on Superfund is a good sign. It means that we now have a handle on our hazardous waste problems, and that we are on the verge of making significant progress in expediting the cleaning of hazardous wastesites.

Some have said that providing additional money to Superfund would simply be throwing more money at the problem. Well, in 1993, I was one of the leading critics who claimed that Superfund was severely broken and needed fixing. In fact, in his first inaugural address President Clinton committed to changing Superfund so that money would go toward cleanup of hazardous wastes in-

stead of paying lawyers. Since that time, I believe the administration's reform efforts have moved Superfund much closer to the goals of faster, fairer, and more efficient cleanups.

It bears noting that these reforms do not reflect only the goals of the present administration; rather, Ms. Browner's administrative reform efforts were based on studies and task force recommendations developed under Administrator Bill Riley, a Bush appointee. And as a result of their reform efforts, Superfund is no longer in need of drastic overhaul.

At the same time, I am in negotiation with the administration and Senators Baucus, Smith, and Chafee on improving Superfund, and I am confident that we can reach agreement on the issues that separate us and end up with a bill that will meet the goals of faster, fairer, more efficient cleanups, and we will receive the support of both parties, the various stakeholders, and the administration.

Whether we fail or not in this ambitious goal, whether it takes the Congress one session or two, the President's budget recognizes a necessary and proper increase in EPA's budget so that we can speed the cleanup of our Nation's most hazardous wastesites. Seventy-five percent of the sites have proven health impacts, and holding funding hostage while we in Washington referee fights between the insurance industry and polluters and States and communities is not a position that I find appealing.

I want to again thank Administrator Browner for her hard work, her leadership, and I look forward to hearing her testimony and her continued service.

Senator BOND. Thank you, Senator Lautenberg.

Senator Shelby.

STATEMENT OF RICHARD C. SHELBY

Senator SHELBY. I have just got a few remarks.

Ms. Browner, welcome again to the committee.

I believe overall that EPA has changed a lot of things for the better in this country: clean air, water, you name it, we can go on and on. But I want to associate myself with the remarks of Senator Burns that I believe your administration, if it were guided from the top down, could do a lot of things maybe with a velvet glove, a softer glove, and get notice to a lot of people that they have got to comply rather than a vicious attack on them. I think it would help the Agency and the image of the Agency.

Having said that, I want to support you where I can. But I do not believe that everything is money. A lot of it is management. A lot of it is administration. I know it takes some money, but we are in some tight money situations up here. The chairman alluded to that earlier in his opening statement. But all of us are having to do basically more with less money, and I think EPA might have to do that.

But I commend you for a lot of good things that I believe you are doing. I believe you are committed to the health, clean air, and water for people, and water is very, very important. Air is very, very important. You do not have to have asthma to know that. We all know it. But people with asthma or touches of it realize it more than some of us. But think about how you can do more with less, how you can be a top-flight administrator with less dollars, with

fewer dollars, and I think you would hit it off not only here but with the American people, because overall your purpose is good.

Thank you.

Senator BOND. Thank you very much, Senator Shelby.

Now, Administrator Browner, you have heard all of our views. We are ready to hear your testimony.

STATEMENT OF CAROL M. BROWNER

Ms. BROWNER. Thank you, Mr. Chairman and members of the subcommittee, for this opportunity to testify before you on the 1998 budget request for the Environmental Protection Agency. I am proud to be joined by colleagues at the Agency, including the new Associate Administrator for Reinvention, Chuck Fox, and Dr. Phil Langrigan, who has joined us in our work to create an Office of Children's Health.

As we approach the 21st century, EPA faces many stiff challenges in our mission to the public health and the environment, including the air, the water, the land, the food they eat. We believe that Americans want us to meet these challenges, that they want clean, healthy air to breathe, they want to know their tap water is safe to drink, and that the food they buy is safe to eat. They want us to rid the Nation of its toxic waste dumps and to prevent the further pollution of America's neighborhoods.

Americans want their children protected from environmental hazards. They want to pass on to their children a safe and healthy environment. And they have come to expect that we can do the job of protecting their health, their environment, and provide for the Nation's economic growth and security. We firmly believe, as I think all here believe, that environmental protection goes hand in hand with economic progress, that a healthy environment is, in fact, vital to the long-term economic success of the Nation, and vice versa. Indeed, this has been our history.

EPA celebrates its 27th anniversary this year. Over the past 27 years, we have made tremendous strides in cleaning up our environment. While we have taken these efforts to reduce pollution, America's gross domestic product has nearly doubled. Over the past 4 years in particular, President Clinton has shown that it is possible to bring down the deficit, restore the Nation's economic health, and at the same time strengthen protection of public health and the environment.

The budget request we make today totaling $7.6 billion expands on that commitment and that promise. It calls for an increase of nearly $850 million over this year's appropriated levels, most of which would be used to fund the President's call to action to clean up the worst environmental problems millions of Americans face in their own community. We are talking about doubling our record pace of cleanups at the Nation's worst toxic wastesites, and ridding our country of 500 more Superfund sites by the end of the year 2000. We want to expand on our brownfields initiative, so that we can help the communities across the country clean up literally thousands of old, abandoned industrial sites and return them to productive use.

Additionally, this budget request increases funding for expansion of the public's right-to-know about toxic pollution in their neighbor-

hoods, without imposing any new reporting requirements on anyone. It also means tougher, more aggressive criminal enforcement against those who actually pollute our air, our water, and our land.

NEW LEGISLATION

On another front, this requested increase enables EPA to do its part to implement two major new environmental laws passed by Congress last year. Both enjoyed broad bipartisan support: The Safe Drinking Water Act amendments of 1996 and the new Food Quality Protection Act, are two shining examples of how Congress and the administration can work together to protect the public health and our environment.

Under the Safe Drinking Water Act amendments, EPA will undertake a variety of new efforts to improve the way we set and enforce drinking water standards, protect drinking water supplies, help communities upgrade their facilities, and provide timely and important information to consumers. The new law is a model for regulatory reform. It gives EPA flexibility to act on contaminants of greatest risk, and to analyze cost and benefits while keeping the public health as the paramount concern.

Under the Food Quality Protection Act, EPA will be adding a new level of protection from harmful pesticides in our food. The budget includes funds to set a single health-based child-first standard for pesticides and all foods.

CHILDREN AS A HIGH PRIORITY

In addition to funding these new, high-priority items, the EPA budget request for 1998 supports a greater overall emphasis on protecting children. Since the President came to office we have tried to put children at the focal point of our mission, because they are among the most vulnerable to environmental threats. Their bodies, their brains, are still developing. Relative to their body weight they consume more of certain types of foods and fluids, and breathe more air than adults. When we set public health and environmental standards, we will do so after taking into account the unique vulnerabilities of our children.

We believe that by doing all of this we will be ensuring that everyone is protected. All of these initiatives, Mr. Chairman, will be enhanced by our efforts to continue reinventing the way EPA works. We are determined to carry out our action plan in the most commonsense, cost-effective ways. We are resolved to strengthening our partnerships with States and tribes, and to providing them more flexibility in how they reach the environmental goals we all share.

We intend to improve our success at reducing redtape, adopting alternative strategies so long as they produce superior environmental results.

In closing, Mr. Chairman, this budget will take us further down the road toward our goal of a cleaner, safer, and healthier environment. It is a budget that says to our citizens we can put our fiscal house in order without sacrificing our basic values; we can protect both the health of our economy, the health of our children; we can have both economic progress and environmental protection that is second to none.

Thank you, Mr. Chairman, and I am happy to answer any of your questions.

[The statements follow:]

PREPARED STATEMENT OF CAROL M. BROWNER

Mr. Chairman, I appreciate the opportunity to be here before you and the Members of your Subcommittee to present the President's 1998 Budget Request for the U. S. Environmental Protection Agency. This request is $7.6 billion and 18,283 FTE's. President Clinton showed during his first term that it is possible to reduce the deficit, restore the nation's economic health, and protect public health and the environment, and he believes in continuing on that course. The President and I believe strongly that a healthy environment and a strong economy go hand in hand.

This budget focuses on the environmental challenges of the 21st Century by strategically expanding EPA's resources for protecting the air we breathe, the water we drink, and the land on which we live. By protecting the environment we protect the health of millions of Americans, particularly our children, who are often the most vulnerable to environmental health risks. Everything we do to clean our air, water and soil, and to make the environment more healthy, we do for them.

The President is requesting an increase for EPA of nearly $850 million over this year's appropriated levels. When you add the additional resources that our agency will be redirecting from other areas, this budget contains a total of more than $900 million in new, high priority investments for environmental protection and public health.

Last August, the President presented America with a "call to action" to deal with the most pressing environmental problems faced by our nation's communities. Of this year's budget increase, $736 million will fund these high priority initiatives, including an acceleration of Superfund cleanups, a revitalization of communities through Brownfields cleanups, a commitment to expand the public's access to information about toxic pollution in their neighborhoods, and a strengthening of criminal enforcement against polluters.

This budget proposes $2.1 billion for Superfund, including a $650 million increase over 1997 to meet the President's pledge to nearly double the pace of toxic waste cleanups. This increase is the first of two installments of the $1.3 billion planned to accomplish this goal, which will result in the cleanup of another 500 sites by the end of the year 2000. Twenty-seven million Americans live near a Superfund site. A commitment to clean up these sites means that millions of Americans who live near the nation's worst toxic waste sites will start off their 21st Century in healthier neighborhoods free of toxic impacts. Cleaning up toxic waste sites will not only ensure the health of our citizens, but will generate jobs and economic development through returning damaged areas of our country to productive use.

This budget also proposes a major expansion of the Brownfields initiative with a $50 million increase to the budget, as part of a program to ensure cleanup of approximately 5,000 sites by the year 2000. Restoring these areas through a partnership with communities and the Department of Housing and Urban Development will result in economic revitalization for communities throughout the country, where scores of abandoned commercial properties will be re-developed and put back into commercial use.

Americans have a right to information about toxic pollution in their neighborhoods. This budget proposes an additional $35 million for an initiative to expand the information available to people about toxic threats to their families—without imposing more reporting requirements on anyone. Informed, involved citizens will always make far better decisions than some distant bureaucracy. Information on toxics will be available to American citizens through a comprehensive monitoring system with computer links to schools, libraries, and home computers.

The President has also made a commitment to a more aggressive criminal enforcement effort against those who pollute our air, our water, and our land. This budget requests a modest funding increase to enhance the training available for state, local, and tribal officials who work at the grassroots of environmental law enforcement.

On another front, this budget contains a $36 million increase to enable EPA to implement two major new environmental laws passed by Congress last year: the Safe Drinking Water Act Amendments and the new Food Quality Protection Act. Those bipartisan legislative successes show how the Congress and the Administration can work together to serve the American people by enhancing the safety of the water we drink and the food we eat.

Under the Safe Drinking Water Act Amendments, EPA will undertake a variety of new efforts to improve the way we set and enforce drinking water standards, pro-

tect drinking water supplies, help communities upgrade their facilities, and provide timely and important information to consumers. The new law is a model for regulatory reform. It gives the EPA flexibility to act on contaminants of greatest risk and to analyze costs and benefits, while keeping the public health as the paramount concern.

Under the Food Quality Protection Act, EPA will be adding a new level of protection from harmful pesticides in our food. The budget includes funds to set a single, health-based, children-first standard for pesticides in all foods, along with the resources necessary to re-evaluate some 9,000 different pesticides to assure safety and to provide better information to the public. By carrying out this act, we will help families to have the safest possible food on the dinner table.

In addition to our commitment to helping implement this new legislation, the President's budget supports the broad goals of protecting children from environmental health threats, revitalizing the environmental and economic health of cities, and strengthening partnerships with state, local and tribal governments.

Because children may face significant, long-term, and unique threats from environmental toxics, we are taking a comprehensive approach to providing children with the strongest possible health protection. Children are more at risk from toxics because their systems are still developing. Relative to their body weight, children consume more of certain types of food and fluids and breathe more air than adults. We are addressing these concerns in programs across the Agency with an initiative called "Assessing Health Risks to Children." This budget dedicates $15.5 million to this initiative. Through focusing activities such as standards-setting and scientific research on children, we will invest in the health of those Americans who will live most of their lives in the next century.

This budget recognizes that states and tribes play a central role in protecting the environment. To strengthen our partnership with them, the President requests an increase in the State and Tribal Assistance Grants account from $674 million to $715 million. Because tribes face some of the greatest environmental challenges today, this increase includes $31 million in additional funds to tribes.

The Administration recognizes the unique circumstances facing states and tribes when it comes to environmental protection. Last year, Congress enacted the President's proposal for EPA's Performance Partnership Grants, which allows states and tribes to combine several categorical grants into a single multi-media grant. These grants give states and tribes more flexibility to reach environmental goals, and they allow less-extensive EPA oversight for States that show strong performance. Last year, 20 states took advantage of the flexibility you provided in our fiscal year 1996 appropriation. In 1997, we expect at least 13 more to use this same flexibility. As more states recognize the benefits of these grants, we expect most, if not all, of them to participate in this program. We are confident that Performance Partnership Grants will continue to reap environmental benefits while they streamline grant administration and strengthen our partnerships with states and tribes.

An important part of our partnerships with local governments involves helping communities upgrade their drinking water infrastructure. This budget proposes $725 million in capitalization grants for the new Drinking Water State Revolving Funds, which make low-interest loans to municipalities to help them meet the requirements of the new Safe Drinking Water Act Amendments. Combined with last year's levels, the states will ultimately receive $2 billion to help provide all Americans with safe, clean drinking water.

Through specific initiatives such as the Project XL and the Common Sense Initiative, we are reinventing the way EPA does business. Forging productive relationships with industry, environmental groups, and concerned citizens is a common thread through all that we do at EPA. In Project XL, industries are able to adopt alternative strategies to current regulations, so long as they produce superior environmental results. Industry has responded positively to this initiative. One example is Intel's new computer chip manufacturing plant in Arizona. An agreement with EPA provides for Intel to reduce overall pollution at the plant, as well as inform and involve local residents on environmental matters through frequent and regular public meetings. In return, Intel gains regulatory flexibility to continue to adapt its operations quickly and efficiently in a competitive and rapidly changing industry.

The Common Sense Initiative (CSI) is another commitment to build effective partnerships. Through this initiative, EPA is working with a variety of stakeholders who have voluntarily come together to explore comprehensive environmental strategies for entire industries. The future of environmental protection rests on cooperative relationships among all stakeholders. CSI can demonstrate how interested sectors can work together for the dual goals of environmental protection and economic productivity.

Agency-wide, our reinvention efforts have been bolstered by the Government Performance and Results Act (GPRA). Our new processes will link planning, budgeting, and accountability to improve EPA's ability to focus on targeted environmental results. In 1996 EPA was a major player in efforts across the Federal Government to pilot GPRA planning activities. We had six of the roughly 70 government-wide accountability pilots. In 1997 we have put in place nearly 50 internal Agency pilots to help strengthen our ability to manage for results. We believe GPRA is a positive tool that can help us reach our most important goal: providing the highest level of environmental protection for our ultimate customer—the American people.

Let me conclude by saying that since the start of this Administration, we have tried to put children at the focal point of EPA's mission. We know that by protecting the most vulnerable among us, we will be protecting everyone. This is a budget for America's children—and for a cleaner, safer and more healthy environment. It is a budget that says to America: "We can put our fiscal house in order without sacrificing our basic values. We can protect both the health of our economy and the health of our children." The President has made a commitment to both goals. With this budget we can carry that commitment into the next century.

I will be happy to answer any questions you have at this time.

---

PREPARED STATEMENT OF PETER F. GUERRERO, DIRECTOR, ENVIRONMENTAL PROTECTION ISSUES, RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION, GENERAL ACCOUNTING OFFICE

Mr. Chairman and Members of the Subcommittee: We appreciate the opportunity to present this statement for the record, which discusses the Environmental Protection Agency's (EPA) efforts to improve its methods of establishing priorities, allocating resources, and measuring performance. As you know, EPA is currently developing a new approach for managing its strategic planning, budgeting, and accountability processes. The new approach, known as the planning, budgeting, and accountability system, responds to the National Academy of Public Administration's (NAPA) April 1995 recommendation that EPA improve and integrate its management processes.[1]

In response to this Subcommittee's continuing interest in how EPA sets priorities and helps to manage the nation's environment, we reviewed the status of EPA's efforts to (1) establish an Office of Planning, Analysis, and Accountability to develop and implement an integrated planning, budgeting, and accountability system and (2) ensure that the agency has comprehensive scientific and environmental data and appropriate environmental measures of progress in carrying out its strategic planning, budgeting, and accountability processes. Our testimony today is based on the preliminary results of our ongoing work for the Subcommittee. A final report on our work will be provided to the Subcommittee this summer.

In summary, our preliminary findings are as follows:

In March 1996, the EPA Administrator announced plans to create a new Office of Planning, Analysis, and Accountability. The office was established in January 1997. In the interim, an EPA work group composed of employees on temporary assignment started to develop the new planning, budgeting, and accountability system. However, the work group was not fully staffed, and the development of the new system is still in the early stages. The new Office of Planning, Analysis, and Accountability will not be fully staffed before July 1997.

EPA faces long-term challenges to obtain the scientific and environmental data needed to fully support its new system. Although much environmental information has already been collected, many gaps exist and the data are often difficult to compile because divergent data collection methods have been used. Likewise, much effort is still required to identify, develop, and agree on a comprehensive set of environmental measures to link the agency's activities to changes in environmental conditions. Without environmental measures, EPA has to rely solely on administrative measures, such as the number of permits issued or inspections made, to measure its performance or success.

BACKGROUND

In an April 1995 report, the National Academy of Public Administration recommended that EPA establish specific environmental goals and strategies to attain them, and use comparative risk analyses to select priorities and develop strategies for specific programs. NAPA also said that EPA should consolidate its planning and budgeting functions, use the budget process to allocate resources to the agency's pri-

---

[1] "Setting Priorities, Getting Results: A New Direction for EPA," NAPA (Apr. 1995).

orities, and establish accountability by setting and tracking benchmarks and evaluating performance. The NAPA study's recommendations are similar to the requirements for federal agencies established by the Government Performance and Results Act of 1993 (GPRA). Under GPRA, agencies must establish, by September 30, 1997, strategic plans and annual performance plans, including annual performance goals and performance measures.

In response to NAPA's recommendations, in July 1995, EPA created a task force to study ways to improve the agency's management processes. In its report, the task force recommended an integrated system composed of strategic planning, budgeting, and accountability processes. In the planning process, EPA was to develop a strategic plan that would be based on the agency's goals. During the budgeting process, each goal in the strategic plan would be considered, and an annual performance plan would be prepared showing the agency's progress to date and plans for future expenditures. During the accountability process, EPA would determine progress under the annual plans and use the data on progress to make corrections in the strategic and annual performance plans.

In March 1996, the EPA Administrator and Deputy Administrator endorsed the task force's recommendations for developing an integrated planning, budgeting, and accountability system and directed that the recommendations be implemented. In making a commitment to substantially revise the agency's management systems, EPA officials recognized that the effort would take several years to complete. The EPA Administrator and Deputy Administrator also announced plans to create a new office by January 1997 to consolidate the agency's planning, budgeting, and accountability processes. In the interim, a work group composed of employees on temporary assignment was established to begin developing the new system.

### EPA IS IN THE PROCESS OF STAFFING ITS NEW OFFICE

In January 1997, the EPA Administrator approved the structure and staffing plans for the new office, called the Office of Planning, Analysis, and Accountability. The interim work group that had been assigned to develop the new system was detailed to the new office to continue its work. The work group has 21 employees, fewer than half the number that EPA had planned for the group.

The new office is authorized 49 employees. As of the end of March 1997, EPA had published job announcements to fill 26 of the new positions. EPA officials told us that these announced positions, which are open only to current EPA employees, will be filled in May 1997. The remaining positions, which are to be announced governmentwide, are not likely to be filled before July 1997. The officials told us that the office was not fully staffed when it was established because time was required to determine the most appropriate types of skills and work experiences needed and to implement a competitive process for selecting staff.

Given the office's limited staffing, the development of an integrated system is in the early stages. For example, EPA is reviewing the agency's former accountability process to find out what did and did not work well, contacting other federal agencies to determine how they account for progress in meeting their goals, and examining reporting systems in the agency's program offices to identify their potential use in the new system. EPA hopes to have the accountability component in place by September 1999. According to EPA officials, the development of the new budgeting component will begin after the agency completes its strategic plan in September 1997. They said that EPA's fiscal year 1999 budget will be structured along the lines of the goals in the strategic plan.

Thus far, the work group members have spent most of their time developing a strategic plan, which is required by September 30, 1997, under GPRA. An important part of the new strategic planning process is the selection of goals and objectives that can be used to guide the agency's actions and to measure its performance. Although EPA is making progress toward developing its strategic plan, it has not completed two studies that are intended to identify the most appropriate goals for the agency and to provide the latest scientific information on environmental risk.[2] EPA officials told us that the September 30, 1997, strategic plan will be updated, as appropriate, to reflect the final results of these studies, which are likely to be completed in late 1997 or early 1998.

---

[2] One of the studies, EPA's National Environmental Goals Project, is being performed to establish a set of long-range national environmental goals with realistic and measurable milestones for the year 2005. The other study, the Integrated Risk Project, is being performed to rank the relative risk of environmental problems, and to develop methodologies that EPA can use to make future risk rankings.

EPA MUST OVERCOME INFORMATION CHALLENGES TO IMPLEMENT ITS NEW SYSTEM

Although EPA continues to expand and improve the environmental data it compiles, it still needs to fill data gaps; improve the quality of its data; integrate information systems; and build the capability to compile, organize, and analyze the data in ways useful to EPA managers and stakeholders. In addition to the measures of outputs or program activities that it currently relies on to assess its performance, EPA is working to develop environmental measures that enable the agency to evaluate the impact of its programs on the environment and determine whether they are achieving the desired results.

EPA'S ENVIRONMENTAL DATA AND SYSTEMS NEED TO BE IMPROVED

The need to assess EPA's performance in terms of changes in environmental conditions substantially increases the demand for high-quality environmental data. Such data are also needed to identify emerging problems so that they can be addressed before significant damage is done to the environment. Despite EPA's efforts to improve the quality of its data, these data are often unreliable, and the agency's many disparate information systems are not integrated. These shortcomings have been raised in various external and internal reports on EPA, including the Vice President's report on reinventing government.[3]

In its April 1995 report, NAPA also identified the lack of high-quality data on environmental conditions as a particularly important problem for EPA. NAPA specifically noted the limited amount of information based on the real-time monitoring of environmental conditions. Without monitoring data, EPA must rely on estimates and limited, site-specific data. NAPA also concluded that much remains to be done to improve the overall management of environmental information in the agency. It noted that EPA had over 500 information systems and that program offices, which are responsible for their own data, use different methods and definitions to gather data. Furthermore, EPA relies on data compiled by other federal agencies and the states. According to NAPA, these agencies and the states also use divergent methods of collecting data.[4]

More recently, a 1996 EPA report concluded that the agency needs to redesign its many disparate fiscal and environmental data systems so that it and others can measure its success in meeting environmental goals and determine the costs of doing so.[5] The agency's difficulty in demonstrating its performance or the impact of its actions is illustrated by the findings of a team of agency personnel, which was formed in 1995 to evaluate the agency's needs for environmental information. The team identified various problems with the information needed to report on environmental goals, such as gaps in the data and inconsistencies in the methods of collecting and/or reporting data across states or federal agencies. Specific examples include the lack of (1) national reporting on risk reduction at waste sites, (2) reliable data on the nature and cause of pesticide poisonings, (3) effective reporting on progress in improving the nation's water quality, and (4) complete data on air pollutants.

EFFORTS TO DEVELOP ENVIRONMENTAL MEASURES NEED FOCUS

EPA and the states are devoting considerable attention to developing environmental indicators or measures for use in assessing programs' performance and better informing the public about environmental conditions and trends. Some efforts are just starting, while some of the agency's program and regional offices and some states have begun to use these measures in reporting on their programs' performance. Although EPA and state officials believe that environmental measures are more useful than measures of activities for assessing programs' performance, they recognize that scientific and technical issues have to be addressed before indicators that really measure environmental conditions and trends can be widely used. Developing and using environmental indicators for an entire program presents significant challenges.

The scientific and technical challenges include identifying (1) a range of health or environmental conditions that can be measured and (2) changes in these conditions that can be linked to a program's activities. These tasks are especially difficult because natural causes, such as changes in weather patterns, and other factors out-

[3] "Reinventing Environmental Regulation," National Performance Review (Mar. 16, 1995).

[4] In "Environmental Protection: EPA's Problems With Collection and Management of Scientific Data and Its Efforts to Address Them" (GAO/T–RCED–95–174, May 12, 1995), we testified that our previous reports had identified long-standing data quality and data management problems at EPA.

[5] "Managing for Results," EPA's Planning, Budgeting, and Accountability Task Force (Feb. 23, 1996).

side a program's control can affect environmental conditions. In some cases, data or indicators are not available for a specific aspect of the environment because of high costs or technical difficulties. Thus, it could be some time before EPA is able to develop and use a set of environmental indicators that accurately reflect the impact of its programs or their results.

According to EPA officials, the agency's and the states' efforts to develop and use environmental measures have been valuable but disparate. Furthermore, at a conference convened by EPA in September 1996 to better coordinate these efforts, as well as in interviews conducted by EPA staff to prepare for the conference, regional and state representatives cited several concerns. They said, for example, that (1) clarification is needed on EPA's and the states' direction in developing goals and indicators, (2) the qualities of a good indicator are not well understood, and (3) determining whether the best indicators have been chosen will take many years. The representatives also believed that the data and resources needed to develop and use environmental indicators are inadequate.

An additional challenge will be to reach agreement within EPA and among its stakeholders on the specific environmental indicators that will be used to measure performance. A consensus may be difficult to reach because of the potential for debate on what is important about individual programs and whether a relatively small number of measures can adequately reflect the effects of an agency's or a program's activities. EPA will need a set of measures common to all the states to report to the Congress and the public on the agency's performance and the state of the nation's environment. At the same time, the development of national measures, to the extent that such measures drive the implementation of environmental programs, will reduce the states' flexibility to tailor the programs to meet local needs and conditions, a major concern of the states. Reporting on new measures will also increase the states' costs unless other reporting requirements are eliminated or reduced.

In May 1995, EPA signed an agreement with state leaders to implement a new system of federal oversight for state environmental programs. This new National Environmental Performance Partnership System (NEPPS) fundamentally changes EPA's working relationship with the states because it places greater emphasis on the use of environmental goals and indicators, calls for environmental performance agreements between EPA and individual states, and provides opportunities for reducing the agency's oversight of state programs that exhibit high performance in certain areas. As of March 1997, about half of the states had signed performance partnership agreements to participate in the system.

EPA's Office of Regional Operations and State/Local Relations is developing a set of core performance measures, including some environmental indicators, that the agency's regional offices are to use in negotiating annual work plans and agreements with the states. The core measures are to be focused and limited in number, representing measurable priorities for each of EPA's national program managers. They are to serve as the minimum measures in performance agreements with the states, which may develop additional measures to represent their own environmental or programmatic issues. In addition, a particular core measure may not be required if a state can demonstrate that the measure does not apply or cannot be addressed. According to EPA, its national program managers will finalize their core measures in April 1997 and its regional staff will begin negotiations with the states to incorporate the measures into the agreements for fiscal year 1998. At this point, it is too soon to know how extensively EPA's regional offices will be negotiating measures that reflect programs' direct effects on human health and the environment.

---

PREPARED STATEMENT OF STANLEY J. CZERWINSKI, ASSOCIATE DIRECTOR, ENVIRONMENTAL PROTECTION ISSUES, RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION, GENERAL ACCOUNTING OFFICE

Mr. Chairman and Members of the Subcommittee: We appreciate this opportunity to provide a statement for the record for use in the Subcommittee's hearing on the Environmental Protection Agency's (EPA) fiscal year 1998 appropriation. As you requested, we have reviewed certain aspects of EPA's contracts and assistance agreements[1] that are used to accomplish the work of the Superfund program. Specifi-

[1] Assistance agreements include grants, cooperative agreements, and interagency agreements. Grants provide financial assistance to organizations to carry out a program without substantial federal involvement. Cooperative agreements provide financial assistance and require substantial federal involvement to carry out a program. Interagency agreements transfer funds between federal agencies.

cally, we are providing information on (1) the total amount of unspent obligated funds remaining on completed contract work orders and assistance agreements and the EPA offices and regions primarily responsible for administering these funds and (2) the timeliness of EPA's recovery of such funds.

In summary, we found the following:

—As of December 1996, about $249 million in unspent obligated funds was potentially available to be recovered on over 6,000 completed work orders and assistance agreements. EPA's Office of Solid Waste and Emergency Response and its regional offices located in Atlanta, New York, and Philadelphia administer most of the funds.

—In the early 1990's, EPA recognized the need to take more timely action to recover unspent funds. However, according to the agency's Inspector General, EPA's offices responsible for managing contracts and assistance agreements were not provided sufficient resources to do so, while carrying out their other responsibilities. Consequently, in 1994, EPA created the Superfund Deobligation Task Force to respond to a growing backlog of completed work orders and assistance agreements, and the associated unspent funds. Since fiscal year 1994, the task force has recovered over $400 million. However, the task force is not keeping up with a growing backlog of completed work orders and assistance agreements because it is composed of part-time members who perform these activities only when their primary job responsibilities enable them to do so.

## BACKGROUND

EPA relies heavily on contracts and assistance agreements for the Superfund program, which was created to clean up the nation's most hazardous waste sites. EPA relies on contractors to accomplish the work of the program, including (1) cleaning up hazardous waste sites, (2) supervising cleanups performed by others, and (3) providing technical and scientific support to the program. Contracts are generally used to obtain the services of private businesses when EPA manages the work. Assistance agreements are generally used to support the activities of states, nonprofit organizations, and universities in the Superfund program. From fiscal years 1990 through 1996, Superfund contracts accounted for $5 billion, or 57 percent, of the $8.8 billion that EPA obligated for all contracts awarded during that period. From fiscal years 1990 through 1995, the most recent period for which information is available, EPA entered into 620 Superfund assistance agreements valued at about $387 million.

EPA issues individual work orders to describe the specific tasks and requirements to be completed on contracts. When a new work order is awarded or a new assistance agreement is entered into, EPA obligates an amount equal to the estimated cost of the work. As work progresses, EPA releases funds to contractors or the recipients of assistance agreements and liquidates its obligations. In many instances, the amount of funds obligated exceeds the amount eventually needed to pay the contractor or other entities for the completed tasks and other requirements. In such cases, the unspent funds may be deobligated and recovered when all work has been completed or when the specified period of performance has expired. Before recovering unspent funds, EPA reviews the completed contract or assistance agreement to ensure that all appropriate payments have been made. EPA leaves between 10 to 15 percent of the total expenditures made under the contract or assistance agreement as a reserve to cover any additional costs, as determined by a final audit. Recovered funds are to be used for other Superfund activities, since congressional appropriations for the Superfund program remain available for use until expended.

EPA contracting officers or grant specialists are responsible for reviewing the costs of the work and performing other closeout activities. The maximum amount of time allowed for closing out contracts according to the Federal Acquisition Regulation is 36 months from the date the contracting officer receives evidence of the project's completion. Similarly, EPA's Final Closeout Policy for Assistance Agreements specifies that assistance agreements be closed within 180 days after completion.

## SUBSTANTIAL UNSPENT FUNDS COULD BE RECOVERED FROM INACTIVE SUPERFUND CONTRACTS AND ASSISTANCE AGREEMENTS

Using EPA's data systems,[2] we identified contract work orders and assistance agreements having unspent obligations for work that has been completed or for

[2] The EPA data systems that we used include (1) the Contracts Information System, (2) the Financial Information System, (3) the Grants Information and Control System, and (4) the Man-

Continued

which the specified performance period has expired. Our analysis of the data shows that about $249 million in unspent funds are potentially available for recovery, mostly on contracts and agreements administered by the Office of Solid Waste and Emergency Response and three EPA regional offices. As shown in table 1, hundreds of work orders or agreements were completed prior to 1991.

TABLE 1.—BALANCES OF UNSPENT OBLIGATIONS BY CONTRACT AND ASSISTANCE AGREEMENTS' COMPLETION

| Fiscal year | No. of orders/assistance agreements | Unspent obligations |
|---|---|---|
| 1981–84 | 7 | $100,945 |
| 1985–87 | 30 | 1,542,836 |
| 1988–90 | 886 | 16,871,139 |
| 1991–93 | 2,477 | 68,923,588 |
| 1994–96 | 2,682 | 161,484,102 |
| Total | 6,082 | 248,922,610 |

We found that each of EPA's 10 regional offices and various headquarters offices currently have unspent balances obligated for work that has been completed. (See app. I.) Completed work orders and agreements administered by the Office of Solid Waste and Emergency Response total over $54 million in unspent funds. In addition, such funds total over $43 million in region 2 (New York), over $18 million in region 3 (Philadelphia), and over $30 million in region 4 (Atlanta). These four agency units account for approximately $145 million, or about 58 percent, of the $249 million potentially available for recovery.

EPA officials told us that the Office of Solid Waste and Emergency Response has a large amount of unspent funds because the Superfund Deobligation Task Force, thus far, has given higher priority to recovering funds in EPA's regions. However, the director of the task force told us that more emphasis will be placed on headquarters' units during fiscal year 1997. He also told us that EPA regions located in the eastern part of the United States, such as regions 2, 3, and 4, typically award a greater number of Superfund contracts and assistance agreements than other regions and, therefore, have more unspent funds on work orders and agreements.

## TIMELY ACTIONS HAVE NOT BEEN TAKEN TO RECOVER FUNDS

EPA has experienced a continuing problem in recovering unspent funds on completed Superfund work orders and assistance agreements. To address this problem, EPA created a Superfund Deobligation Task Force, which has succeeded in recovering nearly $400 million in unspent funds since fiscal year 1994. Nevertheless, the backlog of completed work orders and assistance agreements with unspent funds continues to grow, as additional work orders and assistance agreements are completed. Consequently, on October 1, 1996, the agency implemented a policy that allows EPA offices to use the funds they recover for their own Superfund activities, rather than returning them to the agency for redistribution. However, thus far, this incentive has not resulted in increased recoveries of funds.

### *Recovering Unspent Funds Is a Long-Term Problem*

In December 1990 hearings before the Subcommittee on Oversight and Investigations, House Committee on Energy and Commerce, we said that EPA's failure to recover unspent funds increased the government's need to borrow; increased the agency's vulnerability to fraud, waste, and abuse; and resulted in missed opportunities to obtain interest payments due the government from overpayments to contractors.[3] A few years later, EPA's Inspector General reported that, as of March 1993, contracts awarded under the Superfund program still had balances of over $100 million in unspent obligated funds that were no longer needed for their original purposes.

According to the Inspector General's report, EPA had experienced delay in recovering unspent funds because it had given a low priority and few resources to closing

agement and Accounting System. We did not verify the accuracy or reliability of the data systems.

[3] "EPA's Contract Management: Audit Backlogs and Audit Follow-Up Problems Undermine EPA's Contract Management" (GAO/T–RCED–91–5, Dec. 11, 1990).

contracts, which involves ensuring that all goods and services have been received, evaluating performance, and resolving all outstanding issues or problems. The report stated that EPA's Contract Management Division had requested, but not received, additional resources to carry out these responsibilities in a more timely manner.

In addition, according to the Inspector General's report on assistance agreements,[4] EPA officials stated that competing priorities for staff resources also has resulted in untimely closings of Superfund assistance agreements. Officials of EPA's Grants Administration Division, which administers the agreements, stated that, while closeout functions are important, the division places more emphasis on entering into new assistance agreements than on closing old ones.

*EPA's Task Force Has Recovered Substantial Funds*

To handle a backlog of completed work orders and assistance agreements, in 1994 EPA established a Superfund Deobligation Task Force. The task force is composed of about 30 part-time members, representing several headquarters offices and each of EPA's 10 regional offices. Members review individual contract work orders to identify completed projects, determine the amount of unspent funds available for deobligation, and prepare requests to deobligate and recover the unused funds. The task force gives priority to work orders and assistance agreements with the largest potential recovery of funds.

After the task force identifies unspent funds, EPA takes action to deobligate and recover them, except for an amount held in reserve pending a final audit of the actual costs of the work. If the reserve funds are not sufficient to cover the final costs, as determined by the audit, EPA uses current-year appropriated funds to pay the difference.

Since fiscal year 1994, the task force has recovered over $400 million. However, we found that substantial funds remain on work orders and assistance agreements that were completed years earlier. For example, our analysis shows that 3,400 work orders and assistance agreements were completed more than 3 years earlier, the maximum amount of time that the Federal Acquisition Regulation and EPA's regulations allow for closing out contracts and assistance agreements. Funds totaling approximately $87 million, or about 35 percent, of the $249 million that we identified were associated with these orders and assistance agreements. If the work orders or assistance agreements are not closed within the time specified, EPA is required to do so as soon as possible.

Furthermore, while the task force has recovered substantial funds, it apparently is not keeping up with a growing backlog of completed work orders and assistance agreements. For example, in a May 1, 1996, statement for the record to the Subcommittee on VA, HUD, and Independent Agencies, House Committee on Appropriations, we said that unspent funds on completed work orders totaled $164 million as of March 1, 1996.[5] Our analysis shows that as of January 1, 1997, such unspent funds had grown by $13 million, an increase of about 8 percent.

Task force officials told us that during fiscal year 1996, they spent less time on recoveries than they had during the previous 2 fiscal years. The task force recovered $160 million in fiscal year 1994, $170 million in fiscal year 1995, but only $67 million in fiscal year 1996. According to task force officials, fewer staff resources were provided and fewer funds were recovered during fiscal year 1996 because higher priority was given to other work requirements of the EPA units providing the part-time task force members.

These officials also told us that EPA does not have records showing the amount of time that members spend on their task force activities but noted that it is not unusual for competing priorities to severely limit the staff resources that are available. The officials also told us that EPA has never performed an analysis to determine the resources needed to eliminate the agency's backlog and to keep pace with new completed work orders and assistance agreements.

The director of the task force told us that EPA intends to continue with its task force approach. He acknowledged, however, that other options may be considered if sufficient progress is not made in achieving timely recoveries of unspent funds. Among such options are adding resources to the EPA organizations responsible for managing and auditing contracts and grants so that they may be closed in a more timely manner.

---

[4] "Final Report of Audit on EPA's Controls Over Assistance Agreements," EPA's Office of Inspector General (Sept. 28, 1995).

[5] "Environmental Protection: Selected Issues Related to EPA's Fiscal Year 1997 Appropriation" (GAO/T–RCED–96–164, May 1, 1996).

*New Incentive Policy*

EPA believes that a new policy, initiated on October 1, 1996, may result in additional recoveries by providing more incentive to headquarters and regional task force members to identify, deobligate, and recover funds on completed work orders and assistance agreements. Until fiscal year 1997, recovered funds were placed in a central pool and then distributed on the basis of national Superfund priorities. As of October 1, 1996, the funds remain with the offices recovering them to meet the offices' Superfund cleanup needs. EPA officials told us that this new policy might achieve better results by providing greater incentive to EPA offices to deobligate and recover unspent funds. The officials acknowledged, however, that under the new policy, task force members must still find time to perform the recovery activities while meeting other work requirements having higher priority within their organizational units.

## CONCLUSIONS

The recovery of substantial unspent funds on completed Superfund contract work orders and assistance agreements could help EPA in meeting its responsibilities for cleaning up Superfund hazardous waste sites. Although the agency has taken actions to recover such funds, it has not succeeded in eliminating a substantial backlog of completed work orders and assistance agreements while keeping pace with annual additions to the backlog. Consequently, EPA is not achieving timely recoveries of these funds, as required by agency policy and the applicable federal contracting regulation.

## RECOMMENDATION

To recover unspent funds on inactive Superfund contract work orders and assistance agreements, we recommend that the Administrator of EPA develop a strategy for identifying, deobligating, and recovering unspent funds within the period specified for contracts by the Federal Acquisition Regulation, and for assistance agreements by EPA's Final Closeout Policy for Assistance Agreements.

## AGENCY COMMENTS

EPA officials, including the Director of the Budget Division, Office of the Comptroller, generally agreed with the information contained in this statement for the record. They also agreed that a strategy was needed for recovering unspent funds within the period specified by Federal Acquisition Regulations and EPA's regulations. We have incorporated clarifying comments provided by EPA where appropriate.

## APPENDIX I

### FUNDS AVAILABLE FOR DEOBLIGATION FROM SUPERFUND WORK ORDERS AND ASSISTANCE AGREEMENTS BY EPA ORGANIZATION AS OF DECEMBER 2, 1996

| EPA organization | No. of orders/assistance agreements to be deobligated | Estimated recovery |
|---|---|---|
| Region 1 | 229 | $7,668,938 |
| Region 2 | 589 | 43,569,654 |
| Region 3 | 423 | 18,983,622 |
| Region 4 | 590 | 30,651,835 |
| Region 5 | 452 | 18,905,755 |
| Region 6 | 247 | 11,504,173 |
| Region 7 | 243 | 8,764,694 |
| Region 8 | 190 | 12,931,893 |
| Region 9 | 275 | 14,986,054 |
| Region 10 | 175 | 11,218,870 |
| Office of Research and Development | 704 | 5,061,885 |
| Office of Solid Waste and Emergency Response | 1,088 | 54,905,483 |
| Office of Policy, Planning, and Evaluation | 113 | 1,802,992 |
| Office of Administration and Resources Management | 497 | 4,751,486 |

FUNDS AVAILABLE FOR DEOBLIGATION FROM SUPERFUND WORK ORDERS AND ASSISTANCE AGREEMENTS BY EPA ORGANIZATION AS OF DECEMBER 2, 1996—Continued

| EPA organization | No. of orders/assistance agreements to be deobligated | Estimated recovery |
|---|---|---|
| Office of Enforcement and Compliance Assurance | 132 | 2,086,980 |
| Miscellaneous | 135 | 1,128,296 |
| Total | 6,082 | 248,922,610 |

PROPOSED SUPERFUND INCREASE

Senator BOND. Thank you very much, Madam Administrator.

To go back to the points that I raised in my opening questions, EPA's most significant budget proposal is for Superfund, where there is a 50-percent increase proposed. The amount requested, $2.1 billion, is the highest ever requested, at a time when budget constraints are tighter than ever. In the fiscal year 1997 budget EPA requested, and the Congress provided, a $1.4 billion Superfund budget. Last year EPA projected outyear Superfund budgets of $1.4 billion through the year 2000. Now EPA claims a budget of $2.1 billion for each of the next 2 years is imperative. What I would like to know is what occurred between the preparation of last year's budget and the President's trip to Kalamazoo at which a decision was made to increase the budget by 50 percent for fiscal year 1998 and 1999, and why did this program suddenly become a much higher priority for EPA?

Ms. BROWNER. The Superfund Program, the cleanup of the Nation's worst toxic dump sites, has long been a priority for the EPA. Since I came to EPA almost 4½ years ago, this program has taken almost more of my time than any other program. It is a large undertaking. It is one that is important to literally thousands of communities across the country.

We have made progress in this program, that we would all agree has had its share of problems. I am the first to say that and I have said it for 4 years. I have worked hard to change the day-to-day management of this program, and I think you can see the effects. In the last 4 years we have cleaned up more sites than had been cleaned up in the entire 12 years prior to that. This is an example of how we are getting the job done faster, fairer, and more efficiently. We looked at the number of large toxic dump sites that would be ready to go into the final cleanup phase. This phase takes approximately 2 years, and we have a growing number of such sites. With additional money we could get these done on an expedited basis. We could give these communities back the productive use of these sites. It is just that simple. We have moved the sites through the early phases of the program. We now have in excess of 600 sites where either construction or design is underway. In other words, in the next 2 years we will have candidates ready to do the final 2 years of work if the dollars are there. It is that simple. There is nothing else going on.

Senator BOND. Well, we all like to see progress, but quite frankly, as you indicated earlier, the program is matured. One of the reasons that we are able to move forward is because there has been 12 years of study, and we are at the position where more sites are ready to go into the construction phase.

But is it not true that Superfund sites rank relatively low on a risk continuum, and that EPA could achieve substantially greater risk reduction by applying $650 million to other EPA programs such as the air program?

Ms. BROWNER. Mr. Chairman, we are responsible for implementing more than a dozen national environmental laws. They each speak to different problems. In the case of Superfund, I think Congress ought to speak to the needs of individual communities, of the people who live next to a toxic dump site, who want their children to be able to play and drink the ground water, and who want a quality of life free of toxic contamination. In looking at the needs of those communities, in looking at our desire to be responsive to the needs of those communities, this is the best investment we can make. Let us get the job done.

We can all spend a lot of time talking about why it took us so long to get here. I think we would all agree, there were problems. The truth of the matter is, today we have the sites ready to go. Why not get it over with and give these communities back their neighborhoods?

SUPERFUND: NEW YORK TIMES ARTICLE

Senator BOND. Well, you will recall you were questioned about this previously in the Sunday New York Times of March 21, 1993. There was a very thoughtful article calling environmental policy misguided. Quote:

> These experts say in the last 15 years environmental policy is too often evolved largely in reaction to popular panics, not in response to sound scientific analysis, of which environmental hazards present the greatest risks.

It goes on to state:

> That as an example few experts question the value of spending roughly $3 billion each year on new sewage treatment plants. Many experts, however, question the wisdom of spending billions of dollars to protect people from traces of toxic compounds,

To which you responded in that article, quote,

> The President is aware of this dilemma, and there is leadership in this administration for trying to change the way we do business in every aspect of governing, including environmental protection. We have to allow for change to occur as new information becomes available. This is not an area where a solution will fit forever.

And then the article goes on to say almost everyone involved, including community and local environmental groups, agrees that the toxic waste program stands as the most wasteful effort of all.

Ms. BROWNER. That is a quote from me?

Senator BOND. No.

Ms. BROWNER. That does not sound like me.

Senator BOND. I said the article went on to say that. I would like your response based on what purports in the New York Times article to be the state of scientific thinking. How do you respond to the priority for putting money into Superfund?

Ms. BROWNER. I apologize. I think it is an older article, and I am not familiar with it at this point. I would be more than happy to look at it.

Senator BOND. We will be happy to share it with you.

Ms. BROWNER. I can tell you that from day one of coming to EPA I believed, the President believed, that we had to change the way Superfund functioned on a day-to-day basis, and that is why we have instituted literally dozens of administrative reforms. It is why we have been able to reduce the amount of time it takes to clean up a site. It is why we have been able to reduce the amount of money that is necessary to clean up a site. It is why we have been able to take out the small parties that no one thinks should be trapped in the Superfund net. It is why we have been able to come up with better technologies and presumptive remedy. There are a whole host of changes that result in a very different program today than yesterday.

In terms of the people who live in these communities, in terms of their experiences of these sites, in terms of the health effects and the environmental effects, which they deal with on a day-to-day basis, getting the job done is probably the most important thing we can do for these people at this point in time, and that is why we seek an increase in the budget. This would allow us to complete 500 sites by the end of the year 2000 to give these neighborhoods a future.

Senator BOND. Thank you, Madam Administrator. In the words of General MacArthur, I shall return.

Senator Mikulski.

BROWNFIELDS INITIATIVE

Senator MIKULSKI. Thank you, Mr. Chairman.

Ms. Browner, as you know, one of my great passions is really to be able to generate jobs, believing that the best social program is a job. And our urban areas are so hard hit in the ability to do so. This is why I am tremendously interested in the brownfields initiative. The Maryland General Assembly has just passed legislation. We are recommending funds for a substantial brownfields initiative. And I am very much interested in knowing how the brownfields initiative will work, and No. 2, how will EPA be working with urban areas, particularly those that have urban or enterprise zone like my own hometown, what will that mean in terms of your initiative, coordination with HUD, working with the mayor and the county executive on the ground to make sure we not only clean up a lemon, but in the process create a whole new lemonade stand?

Ms. BROWNER. That is precisely what we have been doing. Approximately 3 years ago, after meeting with mayors from across the country, it became clear to me that these brownfield sites were something we needed to address. Within our existing budget resources, we began a modest program of providing relatively small dollars to allow communities and cities to assess the nature of contamination and bring in those who would both clean up and redevelop the sites. This program turned out to be far more successful than anyone could have imagined on the front end. That is why we

are here today asking for an increase in the dollars that we can make available to local communities across the country.

What we have seen at the brownfield sites that we funded in the early phase of the program is really quite remarkable. We have seen in community after community that when a site is cleaned up, businesses are reopened, jobs are created, and a tax base is restored. What we want is to replicate that in many, many more communities.

The increase that we seek, $50 million, is in addition to a base of $37 million. That would allow for a total of $87 million for this program. It would allow us to dramatically increase the number of assessment grants. We currently make $200,000 assessment grants to cities. It would allow us to create a revolving loan fund for cleanup at 106 pilots. We have found sometimes a little bit of money is needed on the front end. We could make a grant that would then be loaned out and it would be repaid.

Senator MIKULSKI. How will it work, like, in a city? How will it work in a city?

Ms. BROWNER. In an individual city they would receive a grant, as they can right now. There would be more available. A certain percentage of those would be available in the empowerment zone communities. They would be able to take that money, go out and do an assessment of the sites that they think are appropriate for redevelopment. They would bring in the developers, bring in the banks, bring in the lenders, and actually see the job of cleanup restoration.

Senator MIKULSKI. In the communities?

Ms. BROWNER. Yes.

CHESAPEAKE BAY PROGRAM

Senator MIKULSKI. Will you be coordinating with Housing and Urban Development on this initiative so that we are actually working to leverage each other, because the chairman said without limited resources in the subcommittee and cuts in HUD, as well, we need to make sure that every dollar of EPA money and HUD money is actually working for empowerment so that people can move from work to welfare and move to work.

Let us then go on to the Chesapeake Bay Program, which I know is of your great interest. The bay program has been in existence for 10 years, and does seem to show cleanup results. But yet, at the same time, oyster and crab harvest have been declining in the bay. My question is, First of all, and I am sure you would agree, you do not want to see our watermen become as much of an endangered species as our oysters and our crabs. How is the Chesapeake Bay Program now going to move from research to results, from research to focusing on how to maintain both water quality, but also deal with the species decline of oysters and crabs and clams in the bay?

Ms. BROWNER. The primary focus of the Chesapeake Bay Program is working out in the field. For example, we have found working with farmers to deal with nitrogen control practices, that to be a tremendous problem throughout the region. Working a field in terms of habitat restoration, the States, the District, and EPA have made a commitment to restoring habitat along the bay and along

the streams that feed into the bay. I think, at this point in time, it is fair to say we have moved beyond the research phase and are out in the field. As important as the environmental protections are, so are the economic realities of the bay. I think the bay is a good example of how we can achieve both a better environmental protection and an economic growth.

But it is not without its challenges. This is an area that is experiencing tremendous growth, and that is probably our single greatest challenge. We have to continue to work in the partnership from Pennsylvania all the way down to EPA to find the commonsense, cost-effective, and on-the-ground solutions that we are now implementing.

Senator MIKULSKI. Thank you, Mr. Chairman. I see my time is up.

Ms. Browner, I look forward to EPA issuing the proposed cluster rule for the paper industry that has had a great impact on those jobs in western Maryland, Westvaco. Westvaco is the only thing we have got going in western Maryland now with the close of the Bausch & Lomb.

Ms. BROWNER. As you know, we have probably spent hundreds of hours in meetings with both industry, community representatives, and States' officials. We do anticipate sending that to OMB in the course of this month for their interagency review.

Senator MIKULSKI. Thank you.

Thank you, Mr. Chairman.

Senator BOND. Thank you very much, Senator Mikulski.

Senator Shelby.

NAAQS PROPOSALS

Senator SHELBY. Thank you, Mr. Chairman.

Administrator Browner, do you agree that the American people have a basic right to know the scientific basis for the EPA's rulemaking proposals?

Ms. BROWNER. Yes.

Senator SHELBY. Has the data used to support the ozone and particulate matter rule been made available to the public? In other words, the information?

Ms. BROWNER. There has been a 4-year public process reviewing the science that underlies our proposal.

Senator SHELBY. What does that mean?

Ms. BROWNER. That means there were many, many meetings of the Science Advisory Board held in the public. There are more than 250 peer-reviewed published scientific reports that have been made available to the public. We have not had this kind of extensive scientific review and public discussion. This is not an EPA internal review; this is external.

Senator SHELBY. Excuse me. Did you say you have not had it before?

Ms. BROWNER. This kind of review.

Senator SHELBY. You have not had this type of scientific review?

Ms. BROWNER. Not of this magnitude. We began this 4 years ago when I first came to EPA.

Senator SHELBY. OK.

Ms. BROWNER. To just explain one thing briefly, we have dramatically changed in the last 4 years both how we do our scientific review and how we subject our science to peer review: whether it be our own internal science or science we looked at from outside of the Agency. We have dramatically increased the number of peer-review panels we use.

NAAQS: SCIENTIFIC DATA

Senator BOND. Do you believe that your basic decisions regarding health should have a scientific basis?

Ms. BROWNER. Absolutely.

Senator SHELBY. Has EPA, Administrator Browner, received any Freedom of Information requests for this information regarding your scientific data?

Ms. BROWNER. Senator Shelby, with all due respect, I think I know the question you are asking. So if I might say what I think the question is then maybe I can answer it a little bit more directly.

Senator SHELBY. You go right ahead.

Ms. BROWNER. There have been some who have raised a question about some of the data that underlies some of the published peer reviewed studies in the 200-plus studies that we and our external peer-review panel relied on in reaching a scientific proposal regarding a health standard for air. Those data bases, one of which is at Harvard, another of which is with the American Cancer Society, underlie those studies. We have encouraged both Harvard and the American Cancer Society to make those databases public.

Senator SHELBY. Excuse me just 1 minute. Do you have those databases?

Ms. BROWNER. No; we do not.

Senator SHELBY. You do not have what they came up with?

Ms. BROWNER. What the scientific community does in this and any other effort of this type is look at the scientific studies that are done.

Senator SHELBY. Absolutely.

Ms. BROWNER. We have all of the peer-reviewed studies.

Senator SHELBY. Excuse me just 1 minute. But you at EPA, as the Administrator, you commissioned these people——

Ms. BROWNER. No.

Senator SHELBY. You do not, to do these studies?

Ms. BROWNER. Not necessarily, no.

Senator SHELBY. Well, did you in any of these cases? Did you commission or encourage the American Society to do a study in this regard?

Ms. BROWNER. No; we did not commission or encourage the American Cancer Society to collect this data or to do a particular study. No; we did not.

Senator SHELBY. But have you requested from them as the Administrator the data in which they based their decisions?

Ms. BROWNER. The American Cancer Society.

Senator SHELBY. I know who they are. I just asked you a question. Have you requested from them as the Administrator the data on which they based their decision?

Ms. BROWNER. The American Cancer Society does not have any decision. They have a database that any scientist with an appropriate scientific research question can access. They have a written protocol. Anyone can access it.

Senator SHELBY. Do you have that.

Ms. BROWNER. No; do we have the protocol? We would be more than happy to get it for you, certainly. It is a written protocol of what a scientist should do.

Senator SHELBY. Would you get that and furnish it to the committee and to this Senator?

Ms. BROWNER. Yes, we would be more than happy to.

[The information follows:]

## CANCER PREVENTION STUDY II

### DESCRIPTION

Cancer Prevention Study II (CPS–II) is a prospective mortality study of approximately 1.2 million American men and women, begun in 1982. Participants were recruited into the study in all fifty states, the District of Columbia, and Puerto Rico by approximately 77,000 volunteers for the American Cancer Society. Many of the participants were friends, neighbors, or acquaintances of the volunteers. Enrollment was restricted to adult members (age 30 or older) of families in which at least one household member was 45 years or older.

Each participant completed a four page confidential questionnaire and returned it in a sealed envelope. Baseline questions included personal identifiers, height, weight, demographic characteristics, personal and family history of cancer and other diseases, use of medicines and vitamins, menstrual and reproductive history (women), occupational exposures, dietary habits, alcohol and tobacco use and various questions regarding exercise and behavior. For males, the questionnaire covered 376 items, and for females, 395 items.

During the first six years of follow up (September 1, 1982 to August 31, 1988), each participant's vital status was determined at two year intervals through personal inquiries by the volunteers. Volunteers were asked to check whether their enrollees were alive or dead and to record the date and place of all deaths. Death certificates were subsequently obtained from State Health Departments and coded by a nosologist according to a simplified system based on the International Classification of Disease, 9th revision (92 categories). For deceased persons whose death certificates mentioned cancer, clinical information was sought from cancer registries, physicians and hospitals to verify the primary cancer site and histologic type.

The CPS–II study population is being traced beyond 1988 using computerized linkage with the National Death Index (NDI), a database of all deaths in the U.S. NDI provides ACS with a list of deceased persons, their dates of death, states of death, and death certificate numbers. With this information, ACS National is able to obtain most death certificates directly from the State Health Departments. Vital status follow-up at completion of the 1991 follow-up is shown in Table 1.

Follow up of CPS–II is expected to continue for many years (See Figure 1) to maximize the information obtained from this valuable study.

### CPS–II NUTRITION SURVEY

In the Fall of 1992 and 1993 we recontacted approximately half of the CPS–II Study population (men and women age 50–74 in 21 states) and obtained updated information on nutrition and other cancer risk factors on approximately 90,000 men and 100,000 women. The 21 States (26 Divisions) participating in this survey were California, Connecticut, Florida, Georgia, Illinois, Iowa, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Missouri, New Mexico, New Jersey, New York, North Carolina, Pennsylvania, Utah, Virginia, Washington, and Wisconsin.

Our objective is to establish ongoing cancer incidence follow-up for the CPS–II Nutrition Survey cohort through linkage with state cancer registries. We then will be able to study the association of many factors (e.g. diet, lifestyle, environment) reported in both 1982 and 1992 with cancer incidence. Because we will continue our mortality follow-up of the entire CPS–II cohort (through linkage with the NDI), we also will be able to study the association between reported risk factors and survival.

A new questionnaire will be sent to the CPS–II Nutrition Survey cohort in the Fall of 1997. This questionnaire will update information on exposures and will also capture self-reported cancer incidence.

PUBLICATIONS

As of March 1997, 56 scientific papers on CPS–II had been published or were about to be published in peer-reviewed journals. CPS–II is also discussed extensively in two reports by the U.S. Surgeon General on The Health Consequences of Smoking (1989), and The Benefits of Quitting Smoking (1990). A list of references is attached.

ONGOING ANALYSES

Staff in the Epidemiology and Statistics Program are currently conducting a series of analyses on CPS–II. These include analyses of diet, hormones, and other risk factors for selected common fatal cancers, analyses of risk factors for fatal breast and prostate cancer, and updated dose-response analyses between smoking and mortality. Collaborative studies are underway with the National Cancer Institute, the Centers for Disease Control, and several universities.

CPS–II PUBLICATIONS

*In Press*

1. Heath CW, Lally CA, Calle EE, McLaughlin JK, Thun MJ. Hypertension diuretics, and anti-hypertensive medications as possible risk factors for renal cell cancer. Am J Epidemiol, 1966.

2. Kahn HS, Tatham LM, Rodriguez C, Calle EE, Thun MJ, Heath CW. Stable behaviors associated with adults' 10-year change in body mass index and likelihood of gain at the waist. Am J Public Health, 1996.

3. Thun MJ, Day-Lally C, Myers DG, Calle EE, Flanders WD, Zhu BP, Namboodiri MM, Heath CW. Trends in tobacco smoking and mortality from cigarette use in Cancer Prevention Studies I (1959–1965) and II (1982–1988). In: National Cancer Institute, Smoking and Tobacco Control, Monograph 6: Changes in Cigarette-Related Disease Risks and Their Implication for Prevention and Control. Washington, DC: National Institutes of Health.

4. Thun MJ, Myers DG, Day-Lally C, Namboodiri MM, Calle EE, Flanders WD, Adams SL, Heath CW. Age and the exposure-response relations between cigarette smoking and premature death in Cancer Prevention Study II. In: National Cancer Institute, Smoking and Tobacco Control, Monograph 6: Changes in Cigarette-Related Disease Risks and Their Implication for Prevention and Control. Washington, DC: National Institutes of Health.

5. Thun MJ, Heath CW. Changes in mortality from smoking in two American Cancer Society prospective studies since 1959. Prev Med.

*Published*

1. Calle EE, Mervis CA, Thun MJ, Rodriguez C, Wingo PA, Heath CW. Diethylstilbestrol and risk of fatal breast cancer. Am J Epidemiol 1996;144:645–52.

2. Cardenas VM, Thun MJ, Austin H, Lally CA, Clark WS, Greenberg RS, Heath CW. Environmental tobacco smoke and lung cancer mortality in the American Cancer Society's Cancer Prevention Study II. Cancer Causes Control, 1997;8:57–64.

3. Miracle-McMahill HL, Calle EE, Kosinski AS, Rodriguez C, Wingo PA, Thun MJ, Heath CW. Tubal ligation and fatal ovarian cancer in a large prospective cohort study. Am J Epidemiol 1997;145:349–57. Calle EE, Mervis CA, Thun MJ, Rodriguez C, Wingo PA, Heath CW. Diethylstilbestrol and risk of fatal breast cancer. Am J Epidemiol 1997; 144:645–52.

4. Rodriguez C, Tatham LM, Thun MJ, Calle EE, Heath CW. Smoking and fatal prostate cancer in a large cohort of adult men. Am J Epidemiol 1997;145:466–75.

5. Collaborative Group on Hormonal Factors in Breast Cancer. (Calle EE, Heath CW, Jr., Miracle-McMahill HL, collaborators). Breast Cancer and Hormonal Contraceptives: Further Results. Contraception 54, No.3 (Supplement), 1996.

6. Collaborative Group on Hormonal Factors in Breast Cancer. (Calle EE, collaborator). Breast cancer and hormonal contraceptives: collaborative reanalysis of individual data on 53,297 women with breast cancer and 100,239 women without breast cancer from 54 epidemiological studies. Lancet 347:1713–27, 1996.

7. Doll R. Cancers weakly related to smoking. Br Med Bull 1996;52:35–49.

8. Peto R, Lopez AD, Boreham J, Thun M, Heath C, Jr, Doll R. Mortality from smoking worldwide. Br Med Bull 1996;52:12–21.

9. Steenland K, Thun MJ, Lally CA, et al. Environmental tobacco smoking and ischemic heart disease in the American Cancer Society CPS–II cohort. Circulation 1996;94:622–628.

10. Steenland K, Lally C, Thun M. Parity and coronary heart disease among women in the American Cancer Society CPS–II population. Epidemiology 1996;7:641–643.

11. Soucie JM, Coates RJ, McClellan W, Austin H, Thun M. Relation between geographic variability in kidney stones prevalence and risk factors for stones. Am J Epidemiol 1996;143:487–95.

12. Willis DB, Calle EE, Miracle-McMahill HL, Heath CW. Estrogen replacement therapy and risk of fatal breast cancer in a prospective cohort of postmenopausal women in the United States. Cancer Causes Control 1996;7:449–57.

13. Thun MJ, Day-Lally CA, Calle EE, Flanders WD, Heath CW. Excess mortality among cigarette smokers: Changes in a 20-year interval. Am J Public Health 1995;85:1223–1230.

14. Thun MJ, Heath CW. Aspirin use and reduced risk of gastrointestinal tract cancer in the American Cancer Society Prospective Studies. Prev Med 1995;24:116–118.

15. Rodriguez C, Calle EE, Coates RJ, Miracle-McMahill HL, Thun MJ, Heath CW. Estrogen replacement therapy and fatal ovarian cancer. Am J Epidemiol 1995;141:828–835.

16. Pope, CA, Thun MJ, Namboodiri MM, Dockery DW, Evans JS, Speizer FE, Heath CW. Particulate air pollution as a predictor of mortality in a prospective study of U.S. adults. Am J Respir & Crit Care Med 1995;151:669–674.

17. Holmberg L, Ekbom A, Calle EE, Mokdad A, Byers T. Parental age and breast cancer mortality: a cohort study of 384,000 women. Epidemiology 1995:6:425–427.

18. Calle EE, Mervis CA, Wingo PA, Thun MJ, Rodriguez C, Heath CW. Spontaneous abortion and risk of fatal breast cancer in a prospective cohort of U.S. women. Cancer Causes Control 1995;6:460–468.

19. Calle EE, Miracle-McMahill HL, Thun MJ, Heath CW. Estrogen replacement therapy and risk of fatal colon cancer in a prospective cohort of postmenopausal women. J Natl Cancer Inst 1995;87:517–523.

20. Thun MJ, Aspirin, NSAIDS, and digestive tract cancers. Cancer Metastasis Rev 1994;13:269–277.

21. Soucie JM, Thun MJ, Coates RJ, McClellan W, Austin H. Demographic and geographic variability of kidney stones in the United States. Kidney Int 1994;46:

22. Thun MJ, Calle EE, Myers DG, Heath CW. Response. Hair coloring products: safe or still suspect? J Natl Cancer Inst 1994;86:943–944. (Correspondence.)

23. Calle EE, Miracle-McMahill HL, Thun MJ, Heath CW. Cigarette smoking and risk of fatal breast cancer. Am J Epidemiol 1994;139:1001–1007.

24. Thun MJ, Altekruse SF, Namboodiri MM, Calle EE, Myers DG, Heath CW. Hairdye use and risk of fatal cancers in women. J Natl Cancer Inst 1994;86:210–215.

25. Thun M, Namboodiri M, Calle EE, Heath CW. Nonsteroidal antiinflammatory drugs in skin cancer revisited: Response. J Natl Cancer Inst 1993;85:581. (Correspondence).

26. Calle EE, Martin LM, Thun MJ, Miracle HL, Heath CW. Family history, age, and risk of fatal breast cancer. Am J Epidemiol 1993;138:675–681.

27. Thun MJ, Namboodiri MM, Calle EE, Flanders WD, Heath CW. Aspirin use and risk of fatal cancer. Cancer Research 1993;53:1322–1327.

28. Calle EE, Terrell DD. Utility of the National Death Index for ascertainment of mortality among Cancer Prevention Study II participants. Am J Epidemiol 1993;137:235–241.

29 Halperin Mt, Gillespie BW, Warner KE. Patterns of absolute risk of lung cancer mortality in former smokers. J. Natl Cancer Inst 1993;85:457–464.

30. Thun MJ, Calle EE, Namboodiri MM, Flanders WD, Coates RJ, Byers T, Boffetta P, Garfinkel L, Heath CW. Risk factors for fatal colon cancer in a large prospective study. J Natl Cancer Inst. 1992;84:1491–1500.

31. Peto R, Lopez AD, Boreham J, Thun M, Heath C. Mortality from tobacco in developed countries: indirect estimation from national vital statistics. Lancet 1992;339:1268–1278.

32. Lee PY, Silverman MK, Rigel DS et al. Level of education and the risk of malignant melanoma. J Am Acad Dermatol 1992;26:59–63.

33. Thun MJ, Namboodiri M, Heath CW. Aspirin use and reduced risk of fatal colon cancer. N Engl J Med 1991;325:1593–1596.

34. Shopland DR, Eyre HJ, Pechacek TF. Smoking-attributable cancer mortality in 1991: is lung cancer now the leading cause of death among smokers in the United States? J Natl Cancer lnst 1991;83:1142–1148.

35. Garfinkel L, Boffetta P. Association between smoking and leukemia in two American Cancer Society prospective studies. Cancer 1990;65:2356–2360.
36. Garfinkel L, Boffetta P. Smoking and Estrogen-Related Sites Data from American Cancer Society Studies. In Smoking and Hormone Related Disorders. N. Wald, J. Baron (Eds.). Oxford, England: Oxford Medical Publications, 1990.
37. Stellman SD, Garfinkel L. Proportions of cancer deaths attributable to cigarette smoking in women. Women Health, 1989;15:19–28.
38. Garfinkel L, LaVerda N. Dietary patterns of nurses. Proc of 5th National Conference on Cancer Nursing. American Cancer Society, 1989.
39. Stellman, SD. Brief Reports: The case of the missing eights—An object lesson in data quality assurance. Am J Epidemiol, 1989;129:857–860.
40. Boffetta P, Stellman SD, Garfinkel L. A case-control study of multiple myeloma nested in the American Cancer Society prospective study. Int J Cancer 1989;43:
41. Stellman SD, Garfinkel L. Patterns of artificial sweetener use and weight change in an American Cancer Society prospective study. Appetite (suppl. II) 1988;85–91.
42. Stellman SD. Sweetener usage in America. A brief history and current usage patterns. In G.M. Williams (Ed.), Sweeteners: Health Effects. Princeton, NJ: Princeton Scientific Publishers. 1988:1–18.
43. Stellman SD, Boffetta P, Garfinkel L. Smoking habits of 800,000 American men and women in relation to their occupation. Am J Ind Med 1988;13:43–58.
44. Boffetta P, Stellman SD, Garfinkel L. Diesel exhaust exposure and mortality among males in the American Cancer Society prospective study. Am J Ind Med 1988;14:403–415.
45. Garfinkel L, Stellman SD. Mortality by relative weight and exercise. Cancer 1988;62:1844–1850.
46. Garfinkel L, Stellman SD. Smoking and lung cancer in women: findings in a prospective study. Cancer Res 1988;48:6951–6955.
47. Stellman SD, Garfinkel L. Patterns of reported age: Lack of digit bias. JAMA 1987;257:2593–2594. (Correspondence).
48. Garfinkel L, Stellman SD. Cigarette smoking among physicians, dentists, and nurses. CA cancer J Clin 1986;36:2–8. (Reprinted in World Smoking & Health 1986;11:2–9).
49. Stellman SD. Cigarette yield and cancer risk: Evidence from case-control and prospective studies. In: Zaridze D, Peto R, Eds. Tobacco: A major international health hazard. International Agency for Research on Cancer, Lyon, IARC 1986;74:197–209.
50. Stellman SD, Garfinkel L. Artificial sweetener use and one-year weight change among women. Prev Med 1986;15:195–202.
51. Stellman SD, Garfinkel L. Smoking habits and tar levels in a new American Cancer Society prospective study of 1.2 million men and women. J Natl Cancer Inst 1986;76:1057–1063.

OTHER IMPORTANT PUBLICATIONS USING CPS II DATA

U.S. Department of Health and Human Services. Reducing the Health Consequences of Smoking. 25 Years of Progress. A Report of the Surgeon General. U.S. Department of Health and Human Services, Public Health Service, Centers for Disease Control, Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health. DHHS Publication No. (CDC) 89–8411, 1989:140–152.

U.S. Department of Health and Human Services. The Health Benefits of Smoking Cessation. A Report of the Surgeon General. U.S. Department of Health and Human Services, Public Health Service, Centers for Disease Control, Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health. DHHS Publication No. (CDC) 90–8416, 1990:75–84.

Smoking and Health in the Americas. A 1992 Report of the Surgeon General, in collaboration with the Pan American Health Organization. DHHS Publication No. (CDC) 92–8419. 1992.

Peto R, Lopez AD, Boreham J, Thun M, Heath C. Mortality from smoking in developed countries 1950–2000. New York, NY: Oxford University Press; 1994.

GUIDELINES FOR COLLABORATION WITH THE EPIDEMIOLOGY AND SURVEILLANCE RESEARCH DEPARTMENT OF THE AMERICAN CANCER SOCIETY

The following criteria will be used by the American Cancer Society (ACS) to evaluate collaborative proposals by external researchers involving use of ACS databases for epidemiologic analysis.

1. A written proposal must be submitted describing the project, its intent, public health importance, and methodology.
2. The scientific question must be important, biologically relevant, and timely.
3. ACS data must be suitable to study the topic.
4. ACS must have confidence in the ability of the collaborator(s) to work productively with its staff.
5. Higher priority will be given to analyses that concern common cancers or other issues of direct value to ACS.
6. Priority will be placed on cancer-oriented research. The number of studies addressing only endpoints other than cancer will be limited at any given time.
7. It is (highly) preferable that the collaborator(s) complete most of the research at the ACS Home Office in Atlanta.
8. Scientific papers must be jointly authored by the collaborators and ACS Epidemiology and Surveillance Research staff.
9. The timing of the analysis will depend upon the need for and availability of support staff to assist in the project. Projects which can provide funds to reimburse ACS for computer programming will receive special consideration.

EPIDEMIOLOGIC COLLABORATION USING AMERICAN CANCER SOCIETY DATA

Title of Epidemiologic Research Project: _____

TERMS OF AGREEMENT

1. This epidemiologic research project involves active professional collaboration between the American Cancer Society (ACS) and _____.
2. The agreement will cover the work outlined in the written proposal submitted for the project, as later amended in writing by mutual agreement, if applicable.
3. The project is planned to be completed within_____ months beginning _____ and ending _____.
4. The investigator(s) will complete most of the project work at the ACS Home Office in Atlanta.
5. Work space and equipment will be provided for _____ external collaborators at the ACS Home Office during the planned project period.
6. Any scientific papers submitted for publication as an outcome of this project will be jointly authored by the collaborators and ACS Epidemiology & Surveillance Research staff.
7. ACS Epidemiology research analyst staff support will be provided to assist with the project for a total of _____ hours.
8. ACS will be reimbursed for computer programming by the collaborator for hours at the rate of _____ per hour.

*Work under this agreement will be governed by the following principles:*

1. In addition to providing data necessary for analysis, ACS staff will participate in development of the study protocol and in the analysis and publication of study results. In this process, the collaborating groups will reach mutually agreeable decisions regarding data to be analyzed, protocols to be followed, and participation in data analysis.
2. Access to ACS data will be contingent upon acceptance of the terms of this agreement by all collaborating parties and upon assurances of confidentiality for all personal identifying material in the data. When the research project is completed, all original data materials (tapes, printouts, etc.) will either be destroyed or returned to ACS.

Signed:

_____

Clark W. Heath, Jr., M.D. Date
Vice President for Epidemiology
and Surveillance Research
American Cancer Society

_____

Name: Date
Title:
Institution:

NAAQS: PROTOCOL FOR ACCESSING DATA

Senator SHELBY. Have you commissioned or have you encouraged the National Academy of Sciences to do some scientific studies regarding this?

Ms. BROWNER. Again, there are 250 scientific peer-review published studies. Each study came through a process on its own of peer review. Once that was completed, and some of those extend over a 10-year period, the body of the science was then subject to an external peer review. So you have peer review of peer review of peer review.

We have encouraged both the American Cancer Society and Harvard to make public those underlying databases. We have encouraged that and we have written to them. Mary Nichols, the Assistant Administrator for Air and Radiation, has written to them asking them to make those public. It is important to understand that these are peer-reviewed published scientific studies that then were peer reviewed again by an independent panel. The panel, which is made up of industry, university scientists, and others, then formed the scientific basis of the proposal we have made to the American people on public health protection.

Senator SHELBY. Again, do you believe that people that may be questioning some of your decisions in various areas as the Administrator of EPA would have a right to the data in which you base your decision?

Ms. BROWNER. The American Cancer Society has an absolute protocol, as does Harvard, for allowing people to access that. We have encouraged them to go beyond that, to just put it out in the public. We agree with you.

Senator SHELBY. Very important, because it goes to what you base your decisions on, is it not?

Ms. BROWNER. What we based our proposal on—there was no decision yet—there is a proposal.

Senator SHELBY. But there has been decisions in the past on various things. And you base them, or try to I hope, on a scientific basis?

Ms. BROWNER. The process I have used the last 4 years in setting a public health standard or in adopting a regulation, is to understand the body of science that is available.

Senator SHELBY. Absolutely.

Ms. BROWNER. Each statute asks us to do something a little bit different, so we have to take that into account. Once we understand the body of science, it is then and in most instances, subjected to a peer review.

Senator SHELBY. We understand.

Ms. BROWNER. From that flows a proposal, which we take public comment on. This is where we are today in the air process. No final decision has been made and will not be made until we have completed review of the 16,000 comments we received. That is not pages; that is the number of comments. Some of those comments may be hundreds of pages, which we are now committed to reviewing and being informed by.

Senator SHELBY. I understand what you are going through. I know my time is up. If I could just take 10 seconds.

But, again, the scientific data that would support the new particulate matter rule, do you believe that other people that would be affected by this in America are entitled to the same information, and would you make sure that people that request it from you get this information to evaluate the basis on which you make these proposals, to see if they are real or if they are flawed? That was my question.

Ms. BROWNER. The two databases, the American Cancer Society and the Harvard database are the databases there have been questions about. They are available for valid research purposes. You can file with either institution a request to access it.

Senator SHELBY. But do you have that information?

Ms. BROWNER. No; we do not have the databases.

Senator SHELBY. So you make a decision just on their findings, and you do not go back to their basis of their information? I am troubled by this.

Ms. BROWNER. We use a 4-year process to evaluate published, peer-reviewed scientific studies.

Senator SHELBY. You still have not answered my question. I have got another round. I will be back.

Senator BOND. Senator Shelby, I know this is an extremely important area. I apologize, but we do want to make sure that everybody has a shot at it.

Senator SHELBY. My time is up.

Senator BOND. Yes; Senator Boxer.

BUDGET PRIORITIES

Senator BOXER. Secretary Browner, I am just going to step back for 1 minute and say that—Mr. Chairman, thank you. Excuse me for coming after the hearing started. I had to give a talk down the hall in another meeting.

Just stepping back and wearing my budget committee hat, it seems to me, as we look at the overall budget in these very tight times, that we have got to make some pretty tough decisions about where our priorities lie. And what the administration did in this budget, pretty boldly I think, is take out—is to target a few areas and say, you know what, this is important to the American people.

Now, one of those is your Agency, EPA. And as I look from the perspective of my State and the country, I think it is right.

Now, that does not mean that when you throw money at something, it necessarily has results. We have got to make sure that, if we do that, we have results. I am extremely impressed with what I see you have been doing in the past.

BROWNFIELDS SITES

Senator BOXER. I think what the people of my State want, and I think it is true across the country—and I will give an example of these contaminated strawberries as just an example—of where people, if they demand anything at all—we know they want the country to defend its borders and to act in the national security interest of the Nation, but a lot of the enemies they face in their daily lives are not knowing if they can take their kid to the corner hamburger stand, if you will.

And I have met more than one parent who has had that experience, done it 100 times and the 101 they lost a child from E. coli. And when a mother cannot turn on the tap water and give her child clean water, this is something they do not ask us to do, they demand.

So I think, just overall, the fact that this administration would recognize this as a priority is very important. And I want to be as supportive as I can.

Now, certainly one of the reasons is that we have a great number of Superfund sites in my home State. Over 40 percent of Californians live within 4 miles of a Superfund site. We have 96 Superfund sites, the third highest of any State, seven natural resource damage sites—that is, sites where the environment has been damaged by the release of hazardous substances—more than any other States. And we have got to have brownfields.

And I would echo what Senator Mikulski said, when you have these abandoned brownfield sites, it means there are fewer job opportunities, you have neighborhood blight, and increased pressure of urban sprawl. And the city of San Francisco alone has over 5,000 of these sites.

So, to me, when we spend funding to clean it up, we are making a major—we are making major progress, should that cleanup go forward, if you will, toward economic redevelopment, for jobs and toward a future that we will all be proud of. So my question to you, I want to make sure everything we do is based on science. I want to make sure everything is based on reality. I want to make sure, to the greatest extent possible, everything we do is based on consensus, which you are so good at. So in terms of these cleanups, do you feel comfortable in asking for these increases and that we are not going to see this funding go toward attorneys?

I do not have anything against attorneys. I happen to be married to one. My father was one. My son is one. But I honestly feel, we give you money, we want cleanup. We do not want court cases. So can you make us feel more comfortable as we hopefully come through with some of this—I hope we come through with all of it; I do not know if we will—that we are going to see a dramatic improvement, we are going to see these Superfund sites cleaned up by the year 2000, we are going to see these brownfields sites cleaned up?

Ms. BROWNER. This money is for cleanup. Let me say this the easiest way: we now have a universe of 600-plus sites that are candidates that may beready to go, or just about ready to go, into the final 2-year phase, which is the construction cleanup phase. The lawyers are essentially done.

When we give you the numbers, it is based on the candidate list we have and our belief that, within this level of resources and the kind of experts we need to get it done, we can deliver to you 500 sites, with the money, if we have the money, by the end of the year 2000.

The lawyer part of this happens in an earlier phase. For these particular 600-plus candidate sites, out of which will come the 500, we are essentially done with the lawyers.

Senator BOXER. And brownfields, you feel the same way?

Ms. BROWNER. I think that brownfields is a great example of how we avoided, in many instances, the lawyer problem up front. We sat down with the American Bar Association, and with the American Banking Association, and together crafted legal agreements, to avoid any problems that could have flowed.

Senator BOXER. And just to finish this part, and then I will wait to the next round. Eighty-two percent of your increase would go toward these Superfund sites.

Thank you.

FISCAL YEAR 1997 SUPERFUND BUDGET

Senator BOND. Thank you very much, Senator Boxer.

Administrator Browner, my first question to you was why the knowledge of the progress on Superfund sites, which led to a projection of $1.4 billion in spending in the fiscal year 1997 budget, changed. I do not believe I got an answer for that, so I will ask you to submit that for the record.

Senator BOND. My second question was why the Superfund program merits a higher priority on the scientific risk continuum than other areas. I do not believe the answer was responsive to the question and I would invite you to submit that answer in writing for the record.

SUPERFUND: REAUTHORIZATION

Let me try another area. In the February 1997 GAO report, which stated that Superfund was a high-risk program, vulnerable to mismanagement, waste, fraud and abuse, have you not——

Ms. BROWNER. We may not have seen this final report. I apologize.

Senator BOND. It is dated February 1997.

Ms. BROWNER. We have seen this one. There are several GAO reports. Some we have seen and some we have not.

Senator BOND. Yes; all right. This one was titled "High Risk Series, February 1997 Superfund Program Management," 1 of 25. We have the luxury in this committee of handling the high-risk Superfund Program, the entire Department of HUD, which is high risk, and the NASA contracting agency. This has been our year. But I would call your attention to this.

The report does say that the program is vulnerable to mismanagement, waste, fraud, and abuse. The report said:

> That although EPA has been addressing weaknesses in contract management, the Agency remains vulnerable to overpaying its contractors and not achieving the maximum cleanup work with its resources.

GAO also found that EPA pays its cleanup contractors a higher percentage of total contract costs to cover administrative expenses rather than ensuring the maximum amount of available funds go to the actual cleanup. And I would like to know why, with the demonstrated problems in Superfund, we do not have a priority on reauthorization, correction of the statutory deficiencies, and codification of the program reforms prior to the request for an increase.

Ms. BROWNER. Mr. Chairman, I have spent the better part of 3 years asking the U.S. Congress to rewrite the Superfund law. I have probably testified on proposals to rewrite that law more than

any other. I had reached an agreement with everyone, from the Chemical Manufacturers Association to the Sierra Club, on what a rewrite of that program could be. That was more than 3 years ago. Unfortunately, it did not come to pass.

Elections happend. Things changed. I accepted that. We are back at it again this year. I will be meeting again this week on both the House and the Senate side, asking the committees of jurisdiction to please work with us in a bipartisan, consensus-based manner, as we did on drinking water and on food quality.

Food quality took more than 20 years, but this body, working with the administration, did it. There is no reason we cannot do it again on Superfund. There is absolutely no reason we cannot see this law rewritten in the next several months and see it move through the congressional process. We are ready, willing, and able to be at the table to write the legislation to see the law changed.

However, we do not think that the funding increase that we seek should be held hostage to a legislative rewrite, particularly, since we have been about this now for the better part of almost 4 years and have been unable to succeed.

Senator BOND. Madam Administrator, I am running out of time. I would be happy to ask you to submit any further comments on that for the record. But let me point out that when the leadership went to the White House and asked to put Superfund on the fast track, the Vice President said that they were not ready to do so. We know that you have worked for a long time to do it. We are waiting for your proposals. We are not holding anything hostage.

We have a simple request that rather than pouring money into a program which has been criticized by probably one-half the people in this room, and the GAO says is vulnerable to mismanagement, waste, fraud, and abuse because of the statutory scheme in which it operates, that we need to work together to see your proposal, to get your proposal first, and to sit down and work on it, to make sure that we are putting money into cleanup rather than into continued litigation problems and the possible waste and abuse that has been identified.

Ms. BROWNER. Mr. Chairman, if I may, I know my time is up. But we have gone to the relevant committee chairmen and asked how they would like to proceed with getting it done this year. They have suggested that rather than us crafting another bill, they would like to work with us. I think that is important for the record to reflect. That has been our understanding of their request to us.

If we have misunderstood something and they want a bill, then we will deliver you another bill. But I believe, at this point in time, we are more likely to get this done, after 4 years of trying, if we just get in a room, close the doors and hammer out our differences. Now, if they want a bill, if that is what they are telling you, then tell me, and we will deliver you a bill. We have written a bill.

What we need now is an honest dialog, in the same way we had it on drinking water and we had it on food safety. There is a way to do this, and that is what I am committed to.

Senator BOND. Well, I share your commitment. And we need to get it done, because we need to make sure that the money goes to cleanups and that the program works as efficiently as possible.

Senator Mikulski.

SUPERFUND REFORM

Senator MIKULSKI. Thank you. Mr. Chairman, I am sorry that Senator Lautenberg had to leave because of a pressing hearing on the issues around tobacco, a longstanding public health commitment of his. But I believe that Senator Lautenberg did state and has said to me privately that he is working on a Superfund reform effort with Senator Chafee, the driving force in the environmental authorizing committee, and that they were close to arriving at, if not a consensus, at least a workable framework to bring to the full Senate for discussion and amendment. And I think it might be useful if we then got a real read on where that negotiation was going.

If they are stalled out, as you feel, that is one situation. If they are moving, then that is optimistic. If they are stalled out, then I think it is important that the authorizers and Ms. Browner, and perhaps you and I, get into a room to jump start the Superfund. But I do believe that there has been very serious and methodical work on both cleaning up Superfund sites, but also cleaning up our cumbersome Superfund site process, which is costly and lends itself to needless litigation and often excessive payments.

Am I right in this Ms. Browner?

Ms. BROWNER. From our perspective, the process is not stalled. I will be meeting on both the House and the Senate side later this week. I hope to come to closure on the Senate side on what steps will be taken, when they will be taken, how they will be taken, and who will be in the room. We had very productive meetings with Senator Smith and with Senator Chafee prior to the recess.

Senator MIKULSKI. You know what is happening here is Bond raised the question. You are answering Bond and it is on my nickel. [Laughter.]

Ms. BROWNER. I do not think the process is stalled.

Senator BOND. We will give you a few cents change, Senator Mikulski.

Senator MIKULSKI. Can I get a few cents change?

Ms. BROWNER. From my perspective, the process is not stalled. If Senator Chafee or Senator Smith believes the process is stalled, then I am very disappointed, since we are working in good faith.

INTERNATIONAL PROGRAM VISION

Senator MIKULSKI. And I do not know if it is stalled either. I just know that we are working on, each, different sets of assumptions here.

Now, I would like to come back to two areas of interest of mine, one being the international effort. And, Ms. Browner, I know you have a very modest international office, and I am not for building up the Agency, but I do believe very strongly that there is an international effort in exporting our knowledge, our services and our technology. In conversations with me from the private sector, there have been concerns that your international office—and these are not my words but the words given to me—are a lot of guys sitting around in khakis who like to fly around the world, going to conferences and sitting at head tables, talking about how the world ought to clean up.

My question to you is, while you are grappling with such compelling issues like Superfund, do you have a vision and a plan for this international office to really be a mechanism by which we really promote not only environmental knowledge but this opportunity, and are you connected to the Department of Commerce in being able to achieve that?

Ms. BROWNER. We think there is a tremendous opportunity for the export of American environmental technology. The world market for environmental technology is growing dramatically. There is no reason why the United States should not be No. 1 in that export market. We are not, unfortunately, No. 1. There are other countries that now surpass us.

Part of our international work is in partnership with the Department of Commerce and others to ensure that our technologies and our environmental technology firms are able to access those foreign markets. Last year there was a lot of discussion about our environmental technology initiative. In the budget, we are requesting $10 million for technology verification.

This is one of the most important things we can do for these technology firms. When they go to other countries, the first thing that is asked of us is, what does EPA think? If they can demonstrate they have our verification, then it makes their product and their technology that much more interesting.

Senator MIKULSKI. Ms. Browner, have you given an explicit direction to your international office that this must be a focus, and require from them a strategy, a plan of action, targeted opportunities either in sectors or in geographic areas?

Ms. BROWNER. Yes.

Senator MIKULSKI. Why is it that we do not sense a momentum in that?

Ms. BROWNER. Well, I think the challenge is large. Other countries, quite frankly, are extremely aggressive. They put a large amount of resources into pushing their technology in other countries, far more, I think, than we probably do. We also do work in conjunction with the Department of Commerce, which saw some of their budget cuts targeted to these areas.

But certainly we see it as a priority which is, you know, twofold. First, we get the opportunity for American businesses, and second, we all solve a pollution problem. Pollution does not recognize political boundaries and some pollution problems in other parts of the world may ultimately affect us. So we see it as twofold, a pollution reduction and a technology advancement.

Senator MIKULSKI. I know my time is up. I am supportive of the AMI initiative.

Senator BOND. You have got a couple of seconds.

Senator MIKULSKI. I agree with that.

Ms. BROWNER. Thank you.

Senator MIKULSKI. And I would really like to be able to have, for me, really what is this strategy and plan of action, so that we can look at how we can support it and become more aware.

Ms. BROWNER. OK.

Senator MIKULSKI. Many thanks.

Ms. BROWNER. Thank you.

Senator BOND. Thank you very much, Senator Mikulski.

Senator Shelby.
[The information follows:]

## STRENGTHENING EPA'S INTERNATIONAL PROGRAMS

### INTRODUCTION

In the Report accompanying EPA's fiscal year 1997 appropriations bill, the Senate stressed the important role EPA's international programs play in fulfilling the Agency's environmental mission: "The Committee recognizes that the protection of the U.S. environment depends in part on the environmental protection efforts of other countries * * *. The Committee encourages the integration of EPA's international goals more coherently into its principal mission and objectives."

To this end, the Senate Appropriations Committee directed EPA to report to Congress by March 1, 1997 on its measures to strengthen its international program. The Committee specified that EPA's report should address: (a) the integration of international considerations into EPA's primary objectives (Section II); (b) the prioritization of international activities (Section III); the role of other Federal agencies in international environmental activities and their relationship to EPA's Office of International Activities (Section IV); and (d) the value to the American people of EPA's international programs (Section V).

This report responds to that Congressional directive. Structured according to the specific request from Congress, the report contains a separate section for each of the four elements identified by the Committee. It concludes with a section describing measures EPA is taking to strengthen the Agency's international programs.

### ACHIEVING EPA'S MISSION

EPA leads the nation's efforts to protect and preserve public health and the vitality of natural ecosystems in this country. The Agency is committed to achieving these goals by reducing risks to human health and the environment, preventing pollution, and fostering environmentally sound and sustainable economic development in a cost-effective and efficient manner.

International cooperation is a key element in EPA's ability to achieve this mission. The U.S. faces significant challenges in protecting the health of its citizens and its natural resources from environmental hazards. In today's world, since pollution does not honor national boundaries, overcoming these challenges requires the cooperation of other countries. Some examples:

—Cross-border air, water and waste pollution from Mexico, Canada and other areas affect the health, environment and well-being of American citizens living along borders as well as other areas of the United States.

—Improper use of chemicals abroad can affect the safety of food and other products imported into the United States.

—Health and environmental benefits resulting from the multi-billion dollar U.S. investment by industry under the Clean Air Act to reduce emissions of stratospheric ozone depleting compounds could be undermined by failure to control production or use of these chemicals in other countries, such as China, India or Russia.

—Pollution of the marine environment in the Wider Caribbean Region[1] can damage U.S. fisheries and coral reefs and jeopardize tourism and other livelihoods.

—Pollution of the oceans and irreversible loss of species and habitat worldwide damage natural systems critical to our well-being and quality of life, and deprive us of commercially valuable and potentially life-saving genetic materials.

—The long-range transport of persistent organic pollutants like DDT, chlordane and polychlorinated biphenyls (PCB's) can adversely affect health and environment in the United States.

Every major EPA program area has an important and indispensable international component. The Air Office must concern itself with the transboundary fluxes of pollutants such as sulfur dioxide; the Pesticides Office must establish safe tolerances for the import of food to ensure food safety and share information on certain pesticide exports and regulatory decisions; the Office of Solid Waste must ensure the safe import and export of waste; the Office of Enforcement and Compliance Assurance must work with foreign countries, for example, to stop the smuggling of ozone-depleting chemicals; the Office of General Counsel works with USTR on such issues

[1] The Wider Caribbean includes the Gulf of Mexico, the Straits of Florida and the Caribbean Sea. These shared waters are bordered by the United States, Mexico, Belize, Honduras, Nicaragua, Costa Rica. Panama, Colombia, Venezuela, Guyana, Suriname, French Guiana, and all of the Caribbean islands.

as reformulated gasoline and to defend EPA's regulations when these are challenged at the World Trade Organization (WTO); the Office of Policy, Planning and Evaluation must examine how non-environmental policies, such as trade policies, affect EPA's regulations; and the Office of Water must deal with ocean dumping and pollution of international watercourses such as the Great Lakes. It is absolutely clear, therefore, that EPA's work to protect human health and the environment in the United States has an essential international component that cannot be considered independently from EPA's other work.

Within EPA, the Office of International Activities (OIA) leads these international efforts working in close cooperation with other parts of the Agency. As described by the General Accounting Office in its report of September 1996,[2] OIA "serves as the focal point and catalyst for the agency's international agenda, providing leadership and coordination on behalf of EPA's Administrator." OIA is essential to a strong and efficient international program at EPA. Centralizing certain core international functions prevents costly duplication and facilitates the mobilization of Agency program and regional office resources in support of U. S. environmental goals and objectives. As chief advisor to the EPA Administrator on international issues, OIA plays a particularly important role with respect to cross-cutting programs and projects and ensures that the Agency speaks with one voice on critical policy matters. OIA also serves as EPA's principal point of contact on international environmental matters with the Department of State, the U.S. Agency for International Development, the Department of Commerce and other federal departments, and oversees the Agency's international travel and visitors programs.

EXCERPT FROM THE U.S. GENERAL ACCOUNTING OFFICE—SEPTEMBER 1996

EPA is the nation's chief technical and regulatory agency for environmental matters. As such, it plays a major role not only in domestic environmental protection activities but in international environmental programs and activities as well* * *. EPA's international programs also serve important U.S. economic, foreign policy, and security interests.

Consistent with EPA's Five-Year Strategic Plan[3] and the National Environmental Policy Act, EPA has taken steps to incorporate essential international activities into the Agency's programs. Program and regional offices now have a point of contact for international activities. OIA also facilitates a network of regional coordinators to better mobilize the scientific and technical expertise available through the Agency's regions and laboratories. The reduction of global and regional environmental risks is one of twelve environmental goals identified in EPA's draft "National Environmental Goals for America" report. In addition, corresponding goals, objectives and measures for international activities are being developed as part of the "planning, budgeting, analysis, and accountability" process that is currently being introduced in the Agency. The Agency's goal is to link budget decisions with priorities in a more formal, structured way, and to measure results.

EPA has been very successful in advancing the U.S. international environmental agenda. With new planning and management tools, and enhanced cooperation with the Congress and other partners, the Agency can do an even better job in meeting today's challenges. This will require, among other things, developing well-targeted international activities within major programmatic areas.

SETTING CLEAR PRIORITIES

The Agency recognizes the importance of ensuring that its international activities contribute to its primary mission. To that end, the Agency has developed a set of criteria to help determine the relative priority of EPA's proposed international efforts for planning and budgeting purposes. As part of its implementation of the Government Performance and Results Act (Public Law 103–62) and the restructuring of its planning, budgeting, analysis, and accountability processes, the Agency is also developing a results-oriented process for evaluating the effectiveness of its international programs.

---

[2] "International Environment: U.S. Funding of Environmental Programs and Activities," Report to the Chairman, Committee on Foreign Relations, U.S. Senate, United States General Accounting Office, GAO–RCED–96–234, September 1996, Page 22.

[3] "The New Generation of Environmental Protection: EPA's Five-Year Strategic Plan," Office of the Administrator, U.S. Environmental Protection Agency, EPA 200–B–94–002, July 1994.

*Criteria*

EPA has identified the following criteria to better determine the relative priority of international efforts within the Agency. Proposed programs and activities are weighed according to the degree to which they:

—Protect U.S. public health and the environment from transboundary or global environmental risks;

—Fulfill statutory and treaty obligations and respond to congressional mandates and court-ordered deadlines;

—Contribute directly to U.S. domestic environmental programs by increasing the effectiveness or lowering the cost of environmental protection in the United States (e.g., through the acquisition of new research, data or technology);

—Advance broader U.S. foreign policy, economic or national security objectives as defined by Congress and the Administration; and

Take advantage of EPA's unique expertise and experience in the most cost-effective manner possible.

*Evaluation and Monitoring*

Responding to the Government Performance and Results Act of 1993, EPA is increasing its efforts to measure the environmental results of its activities, including those in the international arena. The Agency has begun to develop measurable outcomes for environmental programs at the national and programmatic levels. The "National Environmental Goals for America" report, released recently in public draft form, defines broad goals to improve the nation's environment. Included in this report are a series of proposed milestones to indicate progress toward achievement of the proposed national environmental goals. To achieve the milestones, Federal agencies, states, tribes, communities, industries and individuals must work collectively to implement programs, monitor results and report successes and deficiencies. The draft Goals Report includes a chapter on the global environment that proposes specific, measurable milestones within defined time frames for achieving international environmental objectives. EPA will implement programs to help achieve the global environmental goal and related milestones and will monitor the progress of these programs.

EPA is developing specific goals, objectives and outcome measures to indicate environmental achievements across the Agency. Each major program of the Agency, including international activities, is required to define subordinate programmatic goals and measures and employ monitoring and evaluation techniques for positive environmental results. If these evaluation and monitoring efforts suggest that statutory changes would be beneficial, EPA will report these findings to Congress for its consideration. Our overriding objective is to provide the best protection possible for U.S. citizens and natural resources, consistent with the full range of U.S. political, economic and environmental interests.

COOPERATION WITH OTHER FEDERAL AGENCIES

EPA's environmental mandate and expertise make it uniquely qualified to represent the nation's environmental interests abroad. While the Department of State is responsible for the conduct of overall U.S. foreign policy and other agencies are also involved in the international environmental arena, only EPA has environmental expertise as its primary mission and focus of expertise. The following summarizes EPA's cooperative relations with other U.S. agencies.

*Major Global Environmental Treaties:*

1996-Protocol Relating to the London Dumping Convention [1]
1992—Framework Convention on Climate Change [1]
1992-Convention on Biological Diversity
1989—Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal
1987—Montreal Protocol on Substances that Deplete the Ozone Layer [1]
1985—Vienna Convention on the Protection of the Ozone Layer [1]
1982—United Nations Convention on the Law of the Sea

*Principal North American Environmental Agreements:*

1992—North American Agreement on Environmental Cooperation [1]
1991—Canada-United States Air Quality Agreement [1]
1983—Agreement Between the States and Mexico on Cooperation for the Protection and Improvement in the Border Area [1]
1983—Convention for the Protection and Development of the Marine Environment of the Wider Caribbean Region [1]
1978—Great Lakes Water Quality Agreement [1]

[1] Ratified/given final approval by U.S.

Under the Foreign Relations Act of 1979 (Public Law 95–426), as amended, the Department of State is given primary coordination and oversight responsibility for all major science and technology agreements and activities between the United States and foreign countries, international organizations, or commissions of which the United States and one or more countries are members. Relations between EPA and the Department of State cut across several offices/bureaus in both organizations. For example, EPA works closely with the Bureau for Oceans, Environment and Scientific Affairs (OES), the offices of the Legal Adviser, International Organizations, Economic Affairs, and regional bureaus. OIA at EPA and the OES at State serve as principal points of contact for overall coordination.

EPA plays a large role in the negotiation of international environmental agreements and programs and, at the request of the State Department, sometimes leads U.S. delegations. The degree and level of responsibility for policy development and treaty negotiation on environmental agreements varies by issue between EPA and the Department of State. The policy development necessary for negotiation and implementation of these agreements is invariably dependent upon EPA expertise and support. This expertise is especially critical with respect to ensuring consistency with our domestic environmental policies and regulatory programs.

Recognizing that international agreements are only as effective as their implementation, the Agency also draws on its statutory authority and unique technical and policy expertise to assure the effectiveness of these agreements, both within the United States through the promulgation of appropriate regulations and abroad through technical assistance and training. EPA's policy leadership and technical cooperation programs under the Montreal Protocol, London Ocean Dumping Convention and Framework Convention on Climate Change, for example, have been critical to the success of those international agreements. The Agency is now playing a similar role in preparing for negotiations on a global convention on persistent organic pollutants (POP's) and existing negotiations on prior informed consent (PIC) for the export of certain banned or severely restricted chemicals.

EPA recently signed a Memorandum of Agreement with the Department of Defense and Department of Energy to formalize on-going cooperation in the area of "environmental security". Responding to the recommendation of EPA's Science Advisory Board that EPA "recognize that global environmental quality is a matter of strategic national interest,"[4] the agreement will facilitate inter-agency cooperation in responding to emerging environmental threats to the health and safety of U.S. citizens, U.S. foreign policy interests and environmental problems associated with the legacy of the Cold War. EPA is offering its unique technical expertise in such areas as environmental monitoring and assessment, emergency planning and response, risk assessment, environmental technology development and transfer, and the investigation of international environmental crimes.

EPA has often been asked by the State Department and Defense Department to provide leadership on critical political and security issues. For example, EPA offi-

[4] "Beyond the Horizon: Using Foresight to Protect the Environmental Future," Science Advisory Board, U.S. Environmental Protection Agency, EPA–SAB–EC–95–007, Page 6.

cials and experts were an important part of the U.S. team that promoted scientific and technical cooperation as an effective tool for reducing Cold War tensions with Eastern Europe and the Soviet Union. EPA chaired the U.S. delegation to the historic NATO environmental conference in 1993 that included former Soviet bloc countries for the first time.

EPA and the many components of the Department of Commerce work together closely on a range of different issues, including many science and technology issues. OIA has the lead for coordinating with the Department of Commerce on international issues, including responsibility for organizations carrying out EPA's activities under the Export Enhancement Act of 1992. The Act mandated EPA participation on the Environmental Trade Working Group (ETWG) of the Trade Promotion Coordinating Committee (TPCC), an inter-agency working group chaired by the Secretary of Commerce to coordinate the government's overall trade promotion activities. OIA represents EPA on the sub-cabinet TPCC Deputies' Committee and, along with the International Trade Administration at Commerce, co-chairs both the ETWG and the ETWG "Advance Team".

The Department of Commerce and other trade promotion agencies often look to EPA for information on international environmental needs and market opportunities. Cooperative activities among these agencies have also led to joint economic and environmental benefits for the United States. Joint funding for environmental training of foreign officials, for example, has helped strengthen environmental management capabilities worldwide while leading to over $150 million in sales for small and medium-sized companies in the U.S.

EXCERPT FROM THE EPA SCIENCE ADVISORY BOARD—JANUARY 1995

Recognizing that the United States is part of a global ecosystem that is affected by the actions of all countries, EPA should begin working with relevant agencies and organizations to develop strategic national policies that link national security, foreign relations, environmental quality, and economic growth.

EPA also works extensively with the National Oceanic and Atmospheric Administration (NOAA) and the U.S. Coast Guard on international environmental scientific and policy issues related to the protection of our coasts, marine environment and atmosphere. At the Coast Guard's request, for example, EPA's international office chairs an inter-agency work group tasked with negotiating an international agreement on air pollution standards for ships through the International Maritime Organization. EPA provides technical and policy guidance to the Coast Guard on other vessel safety and pollution prevention matters, for example, problems associated with anti-fouling paint used on ship hulls.

OIA serves as EPA's primary point of contact and liaison with the U.S. Agency for International Development (U.S. AID). Specifically, drawing on expertise from throughout EPA, OIA administers a number of inter-agency agreements for environmental assistance. Under the Support for Eastern European Democracy Act and the Freedom Support Act, for example, OIA coordinates the provision of technical assistance, training, information exchange, and demonstrations in building environmental institutions and human resource capabilities in Central and Eastern Europe, Russia and the New Independent States. OIA also coordinates similar inter-agreements with respect to capacity-building in Central America and Asia.

EPA works extensively with the Office of the U.S. Trade Representative (USTR), particularly its Office of Environment and Natural Resources, to ensure that U.S. international trade policies are mutually supportive, reflecting the Administration's continuing commitment to sustainable economic growth. For example, through the Agency's participation in the negotiation of both the North American Free Trade Agreement and the World Trade Organization and in the Committees created by both sets of agreements, EPA has worked with USTR to ensure that U.S. obligations under international trade agreements do not hamper the ability of federal and state governments to maintain high levels of domestic environmental protection. The two agencies also work together to ensure that EPA's rules, regulations and other programs are consistent with U.S. obligations under international trade agreements. EPA is represented on the subcabinet Trade Policy Review Group (TPRG) and the Trade Policy Staff Committee (TPSC), coordinated by USTR and responsible for the development of U.S. international trade policy.

THE MURMANSK INITIATIVE: SUCCESSFULLY APPLYING THE CONCEPT OF "ENVIRONMENTAL SECURITY"

EPA, the Department of Defense and other agencies are working with Russia and Norway to upgrade and expand a low-level liquid radioactive waste (LLW) processing facility in Murmansk, Russia. Designed to halt possible sea disposal of LLW from the decommissioning of Russia's nuclear submarine fleet, the project is introducing an innovative U.S. technology employing special filtering, containment and processing techniques.

EPA has participated in all of the work leading up to the Report of the WTO Committee on Trade and Environment (WTO/CTE) to the Singapore Economic, Ministerial in December 1996. The WTO/CTE was created with strong support from the U.S. in order to provide, among other things, a mechanism to help ensure that the international trade rules are environmentally sensitive. EPA, together with State and USTR, also leads U.S. delegations to meetings of the OECD Joint Experts Group on Trade and Environment.

Finally, EPA works closely with a number of other agencies with environmental, health or safety mandates, including the departments of Labor, Transportation, Agriculture, Interior, Health and Human Services and the Food and Drug Administration.

BENEFITS TO THE AMERICAN PEOPLE

EPA's international environmental programs help protect the health and environment of American citizens. They enlist the cooperation of other nations in reducing transboundary and global environmental threats to the United States and reduce the cost of the nation's environmental protection. They also serve the nation's broad foreign policy, economic and national security interests.

*Reducing Environmental Threats Along Our Borders*

Over half of the U.S. population lives in the 19 States that form our borders with Mexico and Canada. Nowhere are the benefits of EPA's international programs more apparent than along our common borders with Mexico and Canada and in the Arctic and Wider Caribbean Region.

EPA's cooperative programs with Mexico, along with the Agency's role in negotiating the North American Free Trade Agreement (NAFTA), have led to specific environmental gains in both countries. The construction of wastewater treatment facilities in Mexico is helping solve decades-old problems affecting human health and the environment in California, Arizona, New Mexico, and Texas. Joint air pollution efforts under the 1983 Border Environment Agreement will help reduce respiratory and other health problems in U.S. cities along the border, as well as their Mexican "sister" cities (e.g., Ciudad Juarez, Tijuana). Coordinated enforcement efforts are reducing illegal waste dumping and other pollution on both sides of the border. Working closely with the Department of Health and Human Services, the Department of the Interior and the Department of Agriculture, EPA will play a leading role in implementing "Border XXI", a new five-year program for protecting health and environment along the border (See box).

Long-standing cooperation with Canada has resulted in corresponding environmental gains along our northern border. Benefitting from the Great Lakes Water Quality Agreement and other cooperative agreements, mercury levels in fish in Lakes Michigan, Huron and Erie have dropped by more than 75 percent since 1970. Phosphorous loadings into Lake Erie decreased by more than 50 percent over the same time period, improving water quality and raising fish stocks. EPA and Environment Canada are working closely with public and private interests on both sides of the border to eliminate health and environmental risks from persistent organic pollutants in the Great Lakes.

U.S. and Canadian efforts to achieve the goals of the U.S.-Canada Air Quality Agreement resulted in reductions of sulfate wet deposition over eastern North America by over 20 percent of 1979 levels. U.S. and Canadian federal, British Columbia provincial and Washington state agencies are cooperating to achieve shared goals for the Puget Sound-Straits of Georgia Basin eco-region. Their top four priorities are minimizing habitat loss, protecting marine plants and animals, minimizing introduction of non-native species, and creating marine protected areas. Joint contingency planning with Mexico and Canada is helping prevent and ensure appropriate response capabilities for chemical accidents or other hazardous spills along inland borders.

Finally, the U.S. and its NAFTA partners have determined that some transboundary issues related to Mexico and Canada are better addressed on a regional scale through the Commission for Environmental Cooperation (CEC), which was established under the North American Free Trade Agreement side agreement. For instance, the three parties have developed regional actions plans for DDT, mercury, PCB's and chlordane, and are negotiating procedures to notify and mitigate transboundary environmental impacts. They are also considering a conservation strategy for North American migratory songbirds. The CEC has facilitated cooperation among the North American nations on other issues such as environmental enforcement; development of a North American pollutant release inventory; regional greenhouse gas emissions trading; and regional implementation of global environmental agreements.

*Reducing Global and Regional Environmental Risk*

Global threats have local effects since they can affect the health and well-being of every U.S. citizen. Depletion of the stratospheric ozone layer increases the amount of the sun's ultraviolet radiation reaching the earth's surface, thereby increasing risk of skin cancer, cataracts and suppression of human immune systems. Pollution of the oceans originating in other countries threatens health and environment along U.S. coasts. Similarly, the United States is vulnerable to the impacts of climate change caused by global greenhouse gas emissions. Even with stabilization of emissions by the year 2100, global temperatures would continue to rise for several decades and sea level for centuries. Loss of biological diversity is damaging the health of ecosystems and depleting the world's commercially valuable and potentially life-saving genetic materials. The global ramifications of the nuclear accident at Chernobyl underscored U.S. vulnerability to the results of environmental mismanagement in other countries. Environmental problems like ozone depletion and water pollution also have adverse economic effects for industries like agriculture and fishing.

BORDER XXI: PROTECTING U.S. HEALTH AND ENVIRONMENT ALONG THE U.S.-MEXICO BORDER

EPA will play a leading role in implementing "Border 21", the next five-year phase of the binational program to address environmental, public health and natural resource issues along the U.S.-Mexico border. EPA's goal is to make border communities safe and cleaner for the more than 10 million people who live there. Underlying principles for the plan include enhanced public participation, greater involvement of tribal nations and state agencies, and enhanced coordination and integration of effort among federal agencies and between federal and state agencies.

Objectives of the plan include: (1) reducing and responding to health problems from exposure to chemical, physical and biological agents; (2) building or upgrading wastewater and drinking water systems; (3) reducing air pollution in innovative ways, including expansion of monitoring and control programs; (4) expanded tracking of trans-border shipments of hazardous and toxic substances; (5) expanded use of pollution prevention and recycling practices; (6) improved emergency response procedures; (7) intensified enforcement of environmental and health protection laws in both countries; and (8) increased public access to information, including environmental data.

To achieve maximum environmental results under this program, EPA is using implementation of Border XXI as a pilot under the Government Performance and Results Act.

Drawing on its policy and technical expertise, and in accordance with its statutory authority, EPA plays a leading role in negotiating and implementing international agreements and programs on global and regional environmental problems directly affecting the United States. The Agency was a leading policy and technical voice in the international negotiations on the Montreal Protocol on Substances that Deplete the Ozone Layer. EPA was a key participant on the U.S. delegation to many technical working group meetings, and had lead responsibility for domestic implementation of the Protocol through the promulgation of regulations under the Clean Air Act. The Agency is also instrumental in carrying out U.S. responsibilities related to the provision of technical assistance to developing-country Parties to the Protocol. EPA is now leading the inter-agency effort to reduce illegal exports and imports of chlorofluorocarbons (CFC's) through enforcement cooperation with other countries.

EPA also provides policy and technical leadership in international efforts to implement the Framework Convention on Climate Change, particularly through the President's Climate Change Action Program, and international agreements to prevent and reduce pollution of the marine environment from dumping, vessels and land-based sources. The recent agreement under the London Convention to ban the sea disposal of radioactive and industrial wastes, for example, helps protect U.S. coastal areas, fisheries and human health. Through U.S.G. activities like the U.S. Country Studies Program and the United States Initiative on Joint Implementation (USIJI), EPA assists developing countries in identifying innovative, cost-effective ways to reduce greenhouse gas emissions. Increasing private sector investment in developing countries while enhancing environmental and human health benefits are goals of the USIJI, the Country Studies Program and related programs. The Country Studies Program is expanding its analytic activities with the fifty-five participating countries to support the negotiations, including assisting up to ten additional countries in assessing the extent of emissions reductions achievable through implementation of "win-win" or "no regrets" measures. These activities stimulate the development and diffusion of clean, energy-efficient technologies in developing countries and reduce the need to achieve the same greenhouse gas reductions in the United States.

EXCERPT FROM THE NATIONAL ACADEMY OF PUBLIC ADMINISTRATION—APRIL 1995

EPA's role as protector of the national interest in environmental matters would require it to work with other nations on problems affecting the United States and the world.

EPA has been a global leader in international efforts to control the long-range transport of persistent organic polychlorinated biphenyls (PCB's). The Agency recently helped secure international consensus on the need for a legally binding convention on these pollutants. Such a convention will enlist the cooperation of nations in limiting the production of chemicals long banned or restricted for use in the United States and whose continued use abroad poses a threat to health and environment in this country. EPA has also played a major role in international agreement on prior informed consent (PIC) for the transboundary movement of certain toxic chemicals and pesticides, and for a Biosafety Protocol to the Biodiversity Convention seeking to construct an international regime for trade in living modified organisms.

Similarly, EPA has a key role on implementing the Global Programme of Action on Land-Based Sources of Marine Pollution adopted at the Washington Conference in 1995, and in negotiations on a Land-Based Marine Pollution Protocol under the Cartagena Convention for the Wider Caribbean Region. The development and implementation of effective controls on land-based sources of marine pollution such as outfalls and runoff will go far toward advancing important U.S. environmental and economic interests. Clean beaches and healthy coral reefs, for example, are very important to the tourist, fishing and recreation industries.

EPA's international programs on safe pesticide use are helping to improve the quality of the U.S. food supply. Many off-season fruits and vegetables are imported from developing countries whose environmental inspection and regulatory systems are considerably less stringent than those in the U.S. By working with foreign environmental protection agencies and agricultural producers, EPA is able to promote safer pesticide use and food production practices in countries producing a significant amount of export crops for the U.S. market. Since 1991, for example, EPA has provided technical assistance on pesticide management to many countries in Central America. Much of the produce grown in Central America is intended for the U.S. market.

*Elevating the Quality and Reducing the Cost of Environmental Protection in the United States*

The United States is a world leader in environmental protection, with significant expertise residing in both the public and private sectors. Cooperative research and regulatory development enables the United States to share the costs of environmental protection efforts and to benefit from scientific and technological breakthroughs in other countries, thereby elevating the quality and reducing the cost of environmental protection in the United States.

LEARNING LESSONS FROM ABROAD: THE POLISH BIOSOLIDS PROJECT

EPA's international technology and assistance projects not only help solve pressing environmental problems abroad; they can also identify innovative approaches for use in the United States. Over the last three years, for example, EPA has used AID-funding to work with the Government of Poland in demonstrating the use of biosolids (sewage sludge) in revegetating and detoxifying land contaminated by coal mining and smelter wastes. The successful results of this small-scale demonstration could help introduce the use of this low-cost and effective technique in the U.S.

Cooperative research with several countries, including Canada, Germany, Sweden, Japan, China, and India, has yielded valuable information to the United States at a fraction of the cost of collecting and analyzing the data here. In a cooperative study with China, for example, EPA was able to assess the loss of lung function in children due to their exposure to coarse and fine air-borne particulate matter. Joint testing with Germany on the development of thermal destruction techniques for hazardous waste saved the U.S. taxpayer millions of dollars and accelerated the U.S. domestic program in this area three to four years. Shared testing through the Organization for Economic Cooperation and Development (OECD) of over 700 high production volume chemicals greatly reduces the cost and administrative burden of chemical testing in the United States. OECD's long-standing Test Guidelines harmonization program for toxic chemicals data has been expanded to explicitly consider pesticides data, thereby leading to even greater resource savings for national regulatory agencies and industry as well as more consistent scientific and regulatory conclusions. Cooperation with the European Union is helping to enhance the effectiveness of ecolabeling as a market-based, environmental policy tool.

RUSSIA: PROTECTING OUR SHARED ENVIRONMENT

Environmental cooperation with Russia plays a critical role in reducing global and transboundary risks affecting health and the environment in the United States. Russia is the largest source of industrial and radioactive pollution in the Arctic. It possesses the world's largest forested area and a considerable share of the world's biological diversity. It is also the world's third largest emitter of greenhouse gases and the largest remaining producer of ozone-depleting substances. EPA's cooperative programs with Russia have helped:

—Leverage the funding needed to achieve significant emission reductions of $CO_2$ and other greenhouse gases over the next few years;
—Cease Russia's dumping of low-level radioactive waste in the Arctic, thereby enabling Russia to comply with the London Dumping Convention (see related box on Murmansk);
—Reform major components of Russia's environmental management system, particularly for air pollution;
—Introduce low-cost, innovative technologies to reduce and prevent pollution; and
—Achieve measurable improvements in environmental quality in the Moscow area and in several other Russian cities, including Volgograd and Nizhnii Tagil.

EPA's cooperative programs have helped strengthen U.S. ties with strategically vital nation.

EPA is also working with many developed countries in sharing environmental management expertise on new, non-regulatory mechanisms for protecting the environment. Other countries are extremely interested in our experience with voluntary, non-regulatory programs like the Common Sense Initiative, an industry sector approach to environmental protection. In addition, as EPA moves away from the medium-by-medium approach of the past toward a more integrated view of the environment, it can learn much from the experience of other countries that have already applied such techniques. Swedish and Dutch authorities, for example, have been implementing multi-media systems of environmental protection for many years. Similarly, experience in Germany and other countries in rehabilitating derelict industrial sites offers valuable lessons for the "Brownfields" program in the U.S.

EPA "know-how" and experience is in great demand throughout the world. One very cost-effective way to assist other countries in designing and implementing environmental protection strategies is through EPA's international visitors program. In 1996, for example, EPA hosted over 1,200 visitors from 109 countries. These typically brief stops at EPA enable environmental professionals from other countries to meet and exchange ideas with their counterparts in the United States. Such visits often serve as a springboard for building or strengthening environmental institutions abroad and set the foundation for mutually beneficial future exchanges.

*Serving Broader National Objectives*

As emphasized by the General Accounting Office in its recent review of international environmental programs across the U.S. government, "EPA's international programs also serve important U.S. economic, foreign policy, and security interests."[5] Working closely with other U.S. agencies, for example, EPA has actively supported regional cooperation under the auspices of the Middle East Peace Process Multilateral Working Group, including bringing together regional parties to cooperate on reducing risks from pesticides, small community wastewater, and preventing and responding to chemical accidents or oil spills.

EXCERPT FROM THE ENVIRONMENTAL TECHNOLOGIES TRADE ADVISORY COMMITTEE—JUNE 1996

Widely recognized as the leading source of environmental regulatory and management expertise worldwide, EPA is frequently approached by foreign governments and organizations for assistance in establishing the environmental regulatory and management capabilities that can drive the demand for U.S. technologies.

The Agency's emphasis on community-based environmental management plays an important role in encouraging the development of more responsible, participatory decision-making in countries around the world. Reduced environmental problems can relieve pressures for illegal immigration, promote economic and political stability, and serve other national security interests.

Technical cooperation has also played an important role in foreign policy initiatives in Latin America and with Mexico, China, India, Russia, and South Africa. Finally, EPA's technical assistance and training programs create demand—and markets—for environmental technologies and expertise, thereby enhancing commercial opportunities for U.S. business and industry and creating high-wage jobs for American citizens.

Senior private sector individuals and groups have recently reaffirmed the key role EPA's international technology and capacity-building programs play in creating commercial opportunities for U.S. suppliers of environmental technologies and expertise. In so doing, they have differentiated the export assistance (supply-side) role of the Department of Commerce, Export-Import Bank and other export promotion agencies from EPA's role in creating demand for U.S. technologies and expertise through the development of environmental standards, institutions and human resource capabilities. EPA's short-term technical assistance to the Royal Thai Government, for example, not only helped solve a pressing health and environmental problem in the Mae Moh Valley, it also led to the sale of almost $200 million for U.S.-made air pollution monitoring and control equipment.

International harmonization of good laboratory practices, test guidelines and mutual acceptance of data for industrial chemicals and pesticides means more efficient data development by industry and greater assurance of the quality of data EPA uses in responding to statutory requests for risk and risk benefit assessments. The mutual acceptance of data for risk assessment purposes must now be expanded beyond countries of the Organization for Economic Cooperation and Development to include emerging markets in Asia and Central and Eastern Europe. EPA's efforts to promote the upward harmonization of environmental standards also protect U.S. business and industry from unfair trade advantages through lax or non-existent environmental controls in other countries.

[5] GAO Report, Page 22.

## CONCLUSION: STRENGTHENING EPA'S INTERNATIONAL PROGRAMS

EPA has long been a central player in the formulation and implementation of U.S. international environmental policy. The direct benefit to U.S. citizens and natural resources resulting from this involvement underscores the importance of ensuring an active and continuing international presence. EPA is working to strengthen its ability to lead and support U.S. efforts to prevent and control environmental pollution at the regional and global level. In addition to the priority setting, evaluation and monitoring measures described earlier, EPA is undertaking the following steps to strengthen its international programs.

### EMPHASIZING RISK REDUCTION

Consistent with recommendations of the EPA Science Advisory Board (SAB)[6] and the recommendations of the National Academy for Public Administration (NAPA),[7] EPA is putting much greater emphasis on the potential for risk reduction in setting priorities. The SAB called particular attention to top-ranked risks to the natural ecology and human welfare, all of which have significant international implications. By making better use of good science and balancing numerous environmental, social, economic, political and scientific considerations, the Agency is working to ensure that its limited resources are devoted to the areas of greatest risk.

Responding to the NAPA recommendations, the Agency is also making better use of science, strategic planning, budgeting, and accountability in the planning and implementation of its international programs. The following steps will ensure more rigorous evaluation of the risks associated with different international environmental problems as well as better use of this information in making Agency decisions:

—Evaluation of all existing international commitments in light of the relevant risks to U.S. health and ecosystems;

—Establishment of a more formal mechanism for evaluating future international involvements against the criteria outlined in section III.A of this report; and

—Comparative examination of the Agency's international activities, with accompanying investments and disinvestments.[8]

*Strengthening Internal Coordination*

EPA is committed to improve internal coordination within the Agency in planning and implementing its international activities. The Agency currently uses a variety of mechanisms to tap the best expertise available within the Agency and to ensure effective integration between domestic and international programs. Overall coordination of programs through the Office of International Activities ensures policy coherence, integration and efficiency, particularly on cross-cutting environmental issues and programs.

Consistent with the overall restructuring of the Agency's planning, budgeting and accountability procedures, EPA will institutionalize an annual planning process for its international activities. Under this process, OIA will coordinate an agency-wide effort to develop an annual activity plan describing the various project areas for the coming fiscal year. These activities will include short-term and long-term projects and major upcoming events.This process will ensure that international activities are reflected adequately in the Agency's overall strategic plan, and incorporated into the specific workplans of the various program and regional offices. This process will help EPA prioritize its international activities and provide a forum for assessing the results of the previous year's activities. It will also lead to the necessary disinvestments.

EXCERPT FROM THE GENERAL ACCOUNTING OFFICE—SEPTEMBER 1996

EPA's Office of International Activities serves as the focal point and catalyst for the agency's international agenda, providing leadership and coordination on behalf of EPA's Administrator.

---

[6] "Reducing Risk: Setting Priorities and Strategies for Environmental Protection," Science Advisory Board, U.S. Environmental Protection Agency, SAB–EC–90–021, September 1990.

[7] "Setting Priorities, Getting Results: A New Direction for EPA," A National Academy of Public Administration Report to Congress, April 1995, Page 12.

[8] Coordinated by EPA's Office of International Activities, this effort will review all program and regional office involvements internationally.

In addition to the international contact points for many program and regional offices, OIA has recently: (1) created a strategic planning team of senior managers and staff, (2) undertaken a program to identify specific milestones for EPA's international work, and (3) reassigned one of its senior staff to work full-time on strategic planning. The person is working with program and regional offices in developing appropriate goals, objectives and milestones for international activities under the Agency's new planning, budgeting, accountability and analysis system. OIA will also lead an EPA-wide strategic planning process to apply the criteria described earlier to prioritize among existing and new activities and to begin the process of linking budget decisions to priorities.

Finally, with respect to internal coordination, EPA is taking steps to ensure greater accountability and streamline the international travel process for Agency officials traveling abroad and to improve the efficiency of its international technical cooperation programs. The Agency has begun developing, for example, a set of generic "technology diffusion" modules to disseminate information and training on selected U.S. environmental management techniques. Coordinated closely with complementary programs in the non-profit and private sector, and building on the success of existing domestic programs, the modules will cover priority environmental management techniques (e.g., risk assessment, pollution prevention), sectors (electronics, pulp/paper) and problems (chemical safety, urban air pollution).

*Improving External Coordination*

EPA cannot achieve its environmental mission on its own. One of the most effective ways of strengthening EPA's international program is through building and maintaining effective partnerships with its many stakeholder organizations. It must also leverage its limited resources through closer cooperation with other federal agencies, state and local governments, foreign governments, and international organizations. Such collaborative efforts will bring benefits to the American people through wise allocation of funds that avoid duplication of effort and tap into the wealth of expertise that other organizations offer.

EPA is working to leverage resources for environmental purposes (e.g., lead abatement, methane recovery) and improve the lending practices of the World Bank and other multilateral funding and development institutions. Accounting for approximately $35 billion of development assistance in developing and transition countries, lending institutions play an influential role in shaping international financial practices.

EPA is looking for additional ways to better enlist the expertise, creativity and resources of the U.S. private sector in achieving U.S. environmental objectives abroad. The private sector can benefit, for example, from EPA's extensive network of contacts and detailed understanding of environmental needs and market opportunities worldwide. To protect EPA's credibility and international reputation for objectivity and to ensure that EPA's activities in this area are carried out in a way consistent with the Agency's domestic environmental mandate, EPA has developed the following set of operational guidelines for ensuring that this work is carried out consistent with the Agency's statutory authority and environmental mission:

—What is the environmental rationale for the activity?
—Is the program or project an appropriate activity for public sector involvement?
—Is the activity appropriate for EPA as opposed to another federal agency?
—Does EPA's involvement imply endorsement or favoritism for participating private sector parties?
—Can EPA's participation in the activity be conducted professionally, impartially and objectively?
—Does EPA's role in the activity jeopardize the Agency's ability to fulfill its domestic regulatory or enforcement responsibilities?
—How were private sector parties selected for participation in the project?

Finally, EPA is making better use of regional offices and their international program managers to enlist greater cooperation of States and other public and private sector groups in the international arena. State and city-based managers and organizations often have more to offer to foreign groups seeking to benefit from U.S. expertise and experience. The Agency is also working to strengthen its ties with environmental, conservation and consumer organizations and other non-governmental organizations (NGO's). EPA's Office of Communication, Education and Public Affairs maintains ongoing dialogue with a wide variety of these organizations, including those working on international issues.

Taken together, the steps discussed in this report should strengthen EPA's commitment to international cooperation, and ensure that the Agency's international goals are pursued in the most efficient and cost-effective way possible. Most importantly, active EPA international engagement will result in greater protection

against pollution for U.S. citizens and natural resources. These measures should also serve broader U.S. foreign policy, economic and security interests well. Working closely with the Congress, federal agencies, the private sector, and other partners, EPA leadership can continue to make a difference in the United States and around the world.

NAAQS: CLEAN AIR ACT

Senator SHELBY. Thank you, Mr. Chairman.

Administrator Browner, you used the phrase, I believe, a few minutes ago, and correct me if I misquote you, that we need to have an honest dialog—I believe that was your phrase—dealing with all of this.

Ms. BROWNER. Yes, on Superfund.

Senator SHELBY. And I hope that we will.

As I said earlier, the EPA, along with numerous Federal agencies, States, corporate America, and the citizens of this Nation, should be congratulated on a lot of the accomplishments that have occurred over the years. Numerous constituents, the same people that have supported prior clean air regulations, have come to me and others with their concern. A lot of people are troubled by rushing pellmell into new particulate standards. Has the 1990 Clean Air law been implemented in all of its respects?

Ms. BROWNER. The 1990 Clean Air Act is built on a law that has been in existence since the mid-1970's.

Senator SHELBY. I know that.

Ms. BROWNER. We are continuing with the implementation.

Senator SHELBY. Implementing it.

Ms. BROWNER. Yes; we are basically on target. There are many components to the law. For example, in toxic air emissions, we have achieved the single largest reduction in the last 4 years in the history of the United States because of our implementation work.

Senator SHELBY. We have come a long way, have we not?

Ms. BROWNER. We should all be very proud. But the job is not done.

Senator SHELBY. But we have not completely implemented the 1990 amendments to the Clean Air Act, have we?

Ms. BROWNER. One of the provisions in the 1990 amendments is a 5-year review of the public health standards. We are in the process of taking public comment on our review of two of the six public health standards. We have not proposed to change three of the six, and one we did not review.

Senator SHELBY. Your new proposals have come under attack by a lot of sources.

Ms. BROWNER. I think it is fair to say that some in industry do not like them.

Senator SHELBY. Not just industry. It has been sharply criticized by a lot of the State Governors, municipal leaders and business organizations. And, also, I have been recently made aware that these rules have also been criticized, Ms. Browner, by other Federal agencies, such as the Council of Economic Advisors, the Department of Science and Technology Policy, the Department of Commerce, the Small Business Administration, and the Department of Agriculture have also expressed concern about the scientific basis and—let me finish—and the massive cost for implementing these regulations. Yet, your Agency is continuing full speed ahead.

Why, Administrator Browner, should not the concerns of these other Federal agencies and departments be investigated and heard, proven or disproved, prior to the implementation of these regulations? And are you going to ask that these agencies be made part of the process?

Ms. BROWNER. They are part of the process. And they have been, dating back to, in some instances, several years and, in all instances, last fall.

I would like to go back to the question of Governors. You suggest that all Governors oppose strengthening.

Senator SHELBY. I did not say all; I said a lot of Governors.

Ms. BROWNER. A lot of Governors also support strengthening the public health standards in the way that we have recommended, including Governor King, Governor Weld, Governor Whitman, and Governor Romer. There are a number of Governors who believe that it is important to strengthen the public health protections. We take all of the Governors' comments into account, whether they be supportive or not.

Senator SHELBY. You named four or five; you are going to consider those other 45 you did not name, I hope?

Ms. BROWNER. We did not hear from all 50 Governors.

Senator SHELBY. But I bet you heard from more than four or five.

Ms. BROWNER. I was just pointing out that there were some who had been supportive of our proposal and there were some who had not been.

Senator SHELBY. Sure. You were naming the ones who supported you.

Ms. BROWNER. My response is in keeping with what you had said.

It is absolutely appropriate when any agency, be it EPA or another agency, makes a proposal. That is exactly what happened here. We would have an opinion if the Department of Agriculture wanted to do something. We would have questions that we would want to see answered.

Senator SHELBY. Absolutely.

Ms. BROWNER. The Office of Management and Budget runs what is called an interagency process that brings all of the various Federal agencies and departments to the table for a vigorous debate and discussion. That is what happened in this instance. It was vigorous, without a doubt.

At the end of the day, a decision was made by the Office of Management and Budget to clear our proposal for public comment. While we have been in a public phase and while we are reviewing all of the comments we have received, we have stayed in a discussion across the Federal Government, seeking to understand the concerns, the questions and the points of view that others may have, and speak to them. This is an ongoing process and will continue until a final decision is reached.

OZONE NAAQS: CEA LETTER

Senator SHELBY. I want to ask you this, and tell me if this is correct. I have been told that EPA has stated that the total national cost of implementing the ozone rule would be $2.5 billion; is that correct? Is it about like that?

Ms. BROWNER. We projected a range of costs. The range is from $500 million to $2.5 billion.

With all due respect, Senator, I do need to remind you that the law is very clear. The Clean Air Act, which you all rewrote in 1990, is very clear in telling us this is not a cost/benefit decision. It is a public health decision. Cost/benefit, which we did, because we thought it was an important thing, is somewhat speculative. Until you sit down and sort out community-by-community, State-by-State, and industry-by-industry, and determine where you can get the most cost-effective pollution reductions, you cannot do more than give a range.

Senator SHELBY. Sure. Now, let me remind you of this. I have also been told that the Council of Economics Advisors has stated that the cost of full attainment of just the ozone rule could be $60 billion—or $57.5 billion more than what was estimated by EPA. Now, somebody is way off on their numbers.

Ms. BROWNER. Yes.

Senator SHELBY. Now is it EPA or is it the Council of Economic Advisors?

Ms. BROWNER. I presume you are referring to a draft memo. We have docketed that memo. It is in the public record, because we think it is an important memo. We did not receive it from the Council of Economic Advisors.

Senator SHELBY. Did you disregard the memo and its contents?

Ms. BROWNER. I am trying to explain to you what we did. We subsequently wrote a letter to the chairman of the CEA, asking for all of the backup documentation and any analysis they may have done. We want to make it part of the public record so we could fully consider it.

Senator SHELBY. OK.

Ms. BROWNER. To the best of my knowledge, we have not received that backup documentation. I personally placed a phone call to the chairman of the council, asking for the backup documentation, because we want to consider it. All we have is what you have, which is a three- or four-page memo stamped draft. It was produced after our proposal was made public in November. When it was brought to our attention by a reporter, not by the CEA, we docketed it and asked the CEA for all of the backup documentation. CEA did not give us the memo.

Senator BOND. Thank you very much, Senator Shelby.

Senator SHELBY. Thank you, Mr. Chairman.

Ms. BROWNER. But the concerns are concerns that should be taken into account. That is why we have asked for backup documentation.

Senator BOND. Thank you, Administrator.

Senator SHELBY. Thank you, Mr. Chairman.

Senator BOND. Senator Boxer..

CLEAN AIR ACT REVIEWS

Senator BOXER. Thank you, Mr. Chairman.

Administrator Browner, to pick up on the Clean Air minidebate between you and Senator Shelby. As I understand it, we have gained great benefit from the Clean Air Act over the last 25 years. It was a bipartisan act with great bipartisan support. And as I un-

derstand the law, you did not just get involved and say, OK, it is time for more stringent standards. Did not the courts say that you had to look at the standards and see whether, in fact, they were the proper standards for the health and safety of our people?

Ms. BROWNER. The law requires EPA to review the six most commonly found air pollutants on a 5-year basis. EPA reviews the best available science and determines whether or not the current public health standards adequately protects the American people.

For a variety of reasons, not the least of which was you did have a time when the White House was very hostile to EPA, EPA had not done this for the better part of 10 years. When I came to EPA, we were sued by the American Lung Association because we had not been doing these things on schedule. We agreed that we should be. It is what the law said. It is what the Congress had promised the American people. We settled the lawsuit by laying out a schedule on which we would fulfill our obligation to review these standards.

We were also threatened with a lawsuit on the other standard, ozone. In that case, the lawsuit was eventually withdrawn because we made a public promise, through a Federal Register notice, to similarly undertake the review that the statute has required of us. That is why you now have two that we have proposed and have taken public comment on whether or not we should change.

We also did three more reviews. There are six of these. We have done five reviews. Three of them we are not proposing to change. Two of them we are proposing to change. And one we did not review. It is lead. And the reason we did not review it is because, in many ways, our work is done on that side of things.

Senator BOXER. So I think it is important, Mr. Chairman, that we understand that it was Congress, in a bipartisan fashion, that crafted the Clean Air Act, and that a court has now ordered EPA to take a look at these standards. And I feel that the legitimate question is, are you going to base your final decision on science? That is quite legitimate. And I support that. But we are supposed to consider the health of the people when we set these standards, by our own laws, unless we decide to change it, which I would hope we would not do.

And as I understand it, we are talking about saving lives here. And the latest estimate is 15,000 lives, as I understand it.

Ms. BROWNER. That is for the fine particles. In the case of ozone, we are talking about literally hundreds of thousands of respiratory illnesses, asthma attacks avoided and aggravated asthma cases avoided. Large numbers of people, particularly children or senior citizens, should we finalize the standards as we propose them, will receive tremendous public health benefits and protections.

SAFE DRINKING WATER ACT

Senator BOXER. Speaking of children, the Safe Drinking Water Act—I sit on the authorizing committee, as you know—and the Safe Drinking Water Act, I was very proud of. And there were two amendments that got included that I was involved in. One dealt with consumer confidence reports.

Ms. BROWNER. Yes.

Senator BOXER. So every year people find out what is in their water. And then the other is that when we set drinking water standards, we set them at levels that protect children and other vulnerable populations. You have asked for an $8 million increase in research funding, and I am hopeful that some of that will go toward children.

Ms. BROWNER. Yes.

Senator BOXER. Is that an accurate assumption?

Ms. BROWNER. Yes; we have made our public health standards-setting program focus on the children, whether it be drinking water, air, or whatever. Therefore, we are increasing budget and research dollars, so that we can better understand the environmental effects on the health of our children.

Senator BOXER. And, in addition, the implementation of the consumer confidence reports, you will be able to——

Ms. BROWNER. We are on track.

Senator BOXER [continuing]. Make sure that that happens?

Ms. BROWNER. Yes.

Senator BOXER. I have written a bill, and Jim Moran is going to carry it on the House side, called the Children's Environmental Protection Act. And it really builds on this progress we made in the Safe Drinking Water Act, where we are now seeing that when we set any type of standard, it really ought to be not for the—with all due respect—the 165-pound guy, who is the strongest among us, but to look at the most vulnerable.

Because, you know, even if you look at air bags today, one of the problems is they set that standard on the air bag for a 175-pound male who was not strapped in. Well, you take a littler person, some of whom are sitting at this dais, and it is a little bit of a force here for us, which could wind up leaving us without a very important part of our body, such as our head. [Laughter.]

So I think it is important that when we set these standards we not go for the strongest, but, in fact, look at the most vulnerable. Therefore, everyone is protected, not just a select group.

Ms. BROWNER. I agree.

Senator BOXER. You know, a survival-of-the-fittest kind of approach.

I would love to have your reaction—I know you have not seen the final draft of our bill, but, in theory, would you support taking that same idea that we applied in safe drinking water and applying it more broadly?

Ms. BROWNER. I have issued guidance to all of the offices at EPA to take into account children in every decision we make. And we would certainly welcome the opportunity to review your legislation.

Dr. Phil Langrigan, who was one of the authors of the National Academy of Sciences report on children and pesticides, has recently joined us to assist us in this effort of putting children first and foremost when we make public health and environmental decisions for the country. We would appreciate the opportunity to look at your legislation.

Senator BOXER. Mr. Chairman, I will hold for a final round.

Senator BOND. Thank you very much, Senator Boxer..

Senator Leahy.

MERCURY STUDY

Senator LEAHY. Thank you, Mr. Chairman.

Madam Administrator, good to see you here, as it is when we see you in Vermont.

You seem to be spending a lot of time on the question of air quality, and I think that is wise. Everyone has to take some responsibility for controlling pollution in their own communities. I look at my own State of Vermont, which has some of the strongest environmental laws in the country, but even though we have strong standards within our own borders, we have become a dumping ground for a lot of other States. We have imposed very high environmental standards on ourselves. We pay the price of maintaining those. But then we are faced with an uphill battle when the pollution we are striving to control just silently creeps through the air, comes across borders, and then is dropped in Vermont—pollution that is caused by other States but it comes and hits us.

Now, we are concerned about that. Acid rain taught us that our tough laws on the environment were not enough to protect us.

Now, I think it is safe to say that Vermonters are proud that you serve as our Administrator. You have made a lot of efforts to address pollution transport. I commend you for proposing new regulations on ozone and particulates. Acid rain demonstrated that sulfur dioxide can go hundreds of miles. So, too, can Ozone and particulates, which can cause up to 15,000 premature deaths a year. These are intricately related to whatever kind of deregulation we do in the electric utility industry. Our own legislature is debating that issue right now.

But I think the deregulation of the utility industry adds a level of urgency to your proposed ozone and particulate standards. Some, and some even on this committee, have challenged the science behind the standards. I have reviewed the citations of the studies that back up the EPA rules. They are remarkable. The bibliography alone of science that supports these regulations, I think, is over 100 feet long. The science behind the standards is comprehensive. It is objective.

Now, because there is sound science behind these proposed rules, I am puzzled by the EPA's attempt to postpone the release of another study on mercury. The Science Advisory Board recently recommended the release of this report. I hope that you will do just that. The effects of transport of mercury will be important information to know as we go forward with utility restructuring.

This report is 1,700 pages long. And it contains state-of-the-art information. In February, the Science Advisory Board joined a long list of scientists in saying the report should be released. I wonder why it is that when the Agency's mercury report is supported by equally compelling and sound science as the ozone and particulate standards, the Agency has not released it. Can you tell me when it may be released to the public?

Ms. BROWNER. Yes; we are currently involved in the peer-review process. The Science Advisory Board met in March to review the analysis that has been done and the underlying science that has been provided. We expect to hear back from them in writing. We

do not have the Science Advisory Board's final report, but we expect to have it by the end of the summer.

Depending on what they tell us in that report, we will make the appropriate adjustments and would expect to see release, hopefully, by the end of the year. It really depends on how much we get back.

Senator LEAHY. By the end of 1997?

Ms. BROWNER. It depends on how much we get back from the Science Advisory Board. Since they have not put it in writing yet, we do not know. They were complimentary of the work that we had done. However, they do need to give us a written report, and we are awaiting that.

Senator LEAHY. If the SAB recommends a release, will you release it?

Ms. BROWNER. Certainly.

LAKE CHAMPLAIN MANAGEMENT PLAN

Senator LEAHY. Now, when you were here last year, you and I discussed EPA's commitment to the Lake Champlain management plan. And you have cited the Lake Champlain program as a model for how we can bring together all the parties, develop plans, and find solutions to watershed issues. And I agree with you on that. Two of your regional offices have approved the management plan. Your Assistant Administrator for Water has reaffirmed the Agency's commitment to implement the pollution prevention and restoration plans. I do not see this in your fiscal year 1998 request.

Can you tell me what actions your Agency will take to support the implementation of the management plan and what kind of resources we can expect from the EPA over the next 5 years?

Ms. BROWNER. We will continue to work, as I think we have to facilitate the relationships among the 31 member management team that has been developed. There are many other Federal agencies, as you are well aware, who participate in this and provide funding. We believe that that funding and perhaps some additional dollars we may be able to make available will allow us to continue our work.

Senator LEAHY. Well, as you can imagine, you and I probably have a lot more discussions on this. The Lake Champlain management plan is a particular favorite of mine.

Ms. BROWNER. Yes.

Senator LEAHY. Any time you would like to come up, Mr. Chairman, we would love to show it to you.

Senator BOND. I enjoyed my last visit up there, when we went up there with the agriculture committee. You were a gracious host.

Senator LEAHY. Please come again. Thank you.

Senator BOND. It is a beautiful, beautiful lake.

Thank you very much, Senator Leahy.

Would you check—Senator Craig wanted to ask some questions—is he ready?

Senator LEAHY. Mr. Chairman, I might note that you have been very helpful to those in both New York and Vermont and all others who use Lake Champlain in the past. And I appreciate that.

Senator BOND. Last year's bill looked as if somebody had put a Vermont glitch in the computer that printed it. [Laughter.]

We noted that.

Senator LEAHY. Do not get that glitch out of the computer.

Senator BOND. And we are trying to get the computer fixed this year. [Laughter.]

PM AND OZONE STANDARDS

I will go ahead. Senator Craig is not available. I will go ahead on several questions.

Thank you, Senator Leahy.

I would note, following up on Senator Shelby's comments, that we have received letters with regard to the PM and ozone standards from over 30 mayors and elected officials. Both houses of the Missouri General Assembly have passed resolutions raising questions and concerns about the standards. When they agree on a final resolution, we will share that one with you.

Ms. BROWNER. Thank you.

Senator BOND. I also will ask, for the record, but I wanted to tell you in person, that we are concerned about the cost figures you used on the operable units. The Congressional Budget Office told my staff the average cleanup cost in 1994–95 was $5.6 million, and with a 20-percent growth factor, to $6.6 million for each operable unit. Yet EPA is assuming a $10 million cost per operable unit.

We also would need to see a list of the specific projects to be funded under Superfund, including a risk-based ranking and estimated cost for each, along with a project start date and whether you are going to continue to use the risk-based ranking.

Ms. BROWNER. Yes.

Senator BOND. We also have questions about staff to manage and the contracting capacity to carry out these additional things. I will submit those for the record and ask you to respond to those.

[The information follows:]

# Candidates for Construction Completion by the End of Calendar Year 2000***

## Site Summary

| Site Name | SSID | Last Event | Last Event Start Date (MM/YYYY) | Estimated Funds Needed to Achieve Completion | Population within 4 Miles of Site | Children within 4 Miles of Site |
|---|---|---|---|---|---|---|

**Enforcement Sensitive/Pre-Decisional Information**

**Construction Completion Candidates for Year 2000**

Using the best data available, EPA compiled this list of Superfund sites that are potential candidates for construction completion in the year 2000 as of May 30, 1997. The list portrays, by Region and State: the candidate sites; the last planned event, along with its start date; and the dollars needed, beyond current obligations, to bring the site to construction completion. This list does not include the 434 sites which have completed construction as of May 30, 1997.

Superfund cleanup is highly complex and there are several factors that could cause changes to this list. There are often uncertainties regarding the type and extent of contamination, and it is difficult to predict with complete accuracy what we will find underground. There are many "players" in a Superfund cleanup, and coordination with our State partners or community involvement activities may also affect the timetable for progress at a site. Enforcement activities may affect the amount of funding necessary to initiate or complete a response action. Other considerations that should be kept in mind include the following:

**Resources/Schedules** - The list is based on the assumption that funding, personnel, and other administrative resources will be available when needed.

**Risk Ranking** - EPA uses a "worst sites first" approach to Superfund cleanup. Each fiscal year we rank each site for funding priority, based on the risk it poses. As new site information becomes available, site rankings may change, and completion schedules for the sites on this list may need to be adjusted accordingly.

**Final Remedial Action** - EPA considers construction complete at a site when all necessary construction is complete. There may, however, be other activities at a site that must be continued. For example, monitoring may continue at a site long after construction has been completed. Some "Last Event Start Dates" are denoted with an asterisk (*). These sites currently reflect planning assumptions without the benefit of increased resources. Additional funding will result in accelerated cleanup schedules.

**Population Data**

We have included data on the number of children under the age of ten, along with the total population living within four miles of each site. This data is based on the 1990 Census. The data show the number of people living near a site, which is not necessarily the number of people at risk. Individual population numbers may overlap if there are several sites within the four-mile radius, so population data is not summarized.

**Cost Assumptions/Estimated Costs**

In identifying the costs necessary to achieve construction completion in the year 2000, there are two groups of sites where estimated costs are identified. One group is where the site's final remedy decision ( Record of Decision or ROD), although planned, has not yet been signed. These sites are identified by a double asterisk (**) in the "Estimated Funds Needed to Achieve Completion" column. At another group of sites, there is a ROD signed, but we are unable to identify the level of potentially responsible party (PRP) performance for Remedial Design/Remedial Action (RD/RA). For these two groups of sites we are using the following pricing factors.

Final ROD Pending — Pricing Factor — $4.75 million/site

This pricing factor was calculated by averaging ROD costs from 1990-1996. The average ROD cost was then reduced by 50% to reflect likely PRP performance at a number of these sites, but also to reflect significant uncertainty regarding the actual level of PRP performance. Actual costs for these sites will be different once the ROD is selected. Actual fund needs will change depending on the level of PRP performance. In addition, at several of these sites the ROD may indicate no further remedial action is necessary (e.g., because of previous response actions).

ROD, but no RD/RA Start — Pricing Factor — $2.2 million/site

This pricing factor was calculated by averaging the actual ROD estimates for these sites. The average was then applied to sites based on current understanding of the likelihood that PRPs will be performing the remedy for this group of sites. Actual fund needs may change depending on the level of PRP performance.

**Region 01**

**State: CT**

| | | | | | | |
|---|---|---|---|---|---|---|
| BARKHAMSTED-NEW HARTFORD LANDF | 01B8 | Remedial Action | 12/1999 | ** | 6,134 | 875 |

***NOTE: Candidate sites are projections subject to change, deletion, or substitution due to resource/scheduling changes, project timing, and risk-based ranking as detailed on page 1 of this document.

# Candidates for Construction Completion by the End of Calendar Year 2000***

## Site Summary

| Site Name | SSID | Last Event | Last Event Start Date (MM/YYYY) | Estimated Funds Needed to Achieve Completion | Population within 4 Miles of Site | Children within 4 Miles of Site |
|---|---|---|---|---|---|---|
| **Region 02** | | | | | | |
| **State: NJ** | | | | | | |
| A.O. POLYMER | 02L3 | Remedial Action | 09/1997 | $200,000 | 18,088 | 2,771 |
| ASBESTOS DUMP | 02A2 | Remedial Action | 12/1997 | $6,800,000 | 29,676 | 3,709 |
| BRICK TOWNSHIP LANDFILL | 0254 | Remedial Action | 03/1998 | ** | 60,482 | 9,072 |
| BROOK INDUSTRIAL PARK | 0295 | Remedial Action | 12/1997 | $5,943,420 | 61,472 | 7,735 |
| CALDWELL TRUCKING CO | 02B3 | Remedial Action | 09/1997 | $200,000 | 81,775 | 8,948 |
| CHEMICAL INSECTICIDE CORP | 0294 | Remedial Action | * | ** | 110,045 | 13,250 |
| CHEMSOL, INC | 02C3 | Remedial Action | 06/1999 | ** | 131,018 | 16,852 |
| COMBE FILL SOUTH LANDFILL | 0256 | Remedial Action | 09/1999 | $0 | 12,118 | 1,756 |
| COSDEN CHEMICAL COATINGS CORP | 02P8 | Remedial Action | 03/1998 | $4,500,000 | 113,106 | 16,525 |
| CURCIO SCRAP METAL, INC | 02P7 | Remedial Action | 12/1997 | ** | 340,336 | 42,082 |
| D'IMPERIO PROPERTY | 0221 | Remedial Action | 05/1994 | $0 | 10,288 | 1,485 |
| DAYCO CORP./L.E CARPENTER CO | 025A | Remedial Action | 09/1999 | $0 | 49,221 | 6,632 |
| DE REWAL CHEMICAL CO | 02H3 | Remedial Action | 06/1999 | $12,000,000 | 6,236 | 934 |
| DELILAH ROAD | 02B5 | Remedial Action | 12/1998 | $0 | 46,155 | 6,390 |
| ELLIS PROPERTY | 02D9 | Remedial Action | 09/1997 | $2,157,500 | 43,168 | 6,394 |
| EVOR PHILLIPS LEASING | 0292 | Remedial Action | * | ** | 92,397 | 12,311 |
| EWAN PROPERTY | 02A5 | Remedial Action | 09/1997 | $200,000 | 7,733 | 1,199 |
| FEDERAL AVIATION ADMIN. TECH. | 02Z3 | Remedial Action | 12/1998 | $1,350,000 | 35,344 | 4,863 |
| FLORENCE LAND RECONTOURING LAN | 02B6 | Remedial Action | 09/1989 | $0 | 17,525 | 2,470 |
| FRIED INDUSTRIES | 02D1 | Remedial Action | 09/1998 | $8,100,000 | 120,317 | 14,404 |
| GARDEN STATE CLEANERS CO | 023R | Remedial Action | 09/1996 | $0 | 14,052 | 1,798 |
| GEMS LANDFILL | 0229 | Remedial Action | 09/1996 | $200,000 | 99,245 | 15,623 |
| GLEN RIDGE RADIUM SITE | 02B1 | Remedial Action | 06/1998 | ** | 473,719 | 66,131 |
| GLOBAL SANITARY LANDFILL | 021U | Remedial Action | 06/1998 | $600,000 | 83,752 | 11,304 |
| HIGGINS DISPOSAL | 023C | Remedial Action | 06/1999 | ** | 37,273 | 4,116 |
| HIGGINS FARM | 02W9 | Remedial Action | 03/1995 | $500,000 | 26,731 | 3,710 |
| INDUSTRIAL LATEX CORP | 02M3 | Remedial Action | 12/1998 | ** | 276,751 | 32,753 |
| JIS LANDFILL | 0240 | Remedial Action | 12/1999 | $2,226,000 | 27,291 | 2,951 |
| KAUFFMAN & MINTEER, INC | 021R | Removal | 09/1997 | $600,000 | 7,467 | 1,169 |
| KIN-BUC LANDFILL | 0204 | Remedial Action | 06/1994 | $0 | 114,935 | 13,990 |
| LIPARI LANDFILL | 0201 | Remedial Action | 12/1993 | $0 | 39,537 | 5,839 |
| METALTEC/AEROSYSTEMS | 0241 | Remedial Action | 12/1997 | $4,350,000 | 15,559 | 2,511 |
| MONTCLAIR/WEST ORANGE RADIUM S | 02A9 | Remedial Action | 06/1998 | ** | 455,195 | 62,520 |
| MONTGOMERY TOWNSHIP HOUSING DE | 0290 | Remedial Action | 06/1999 | $3,050,000 | 27,224 | 2,850 |
| NASCOLITE CORP | 02C6 | Remedial Action | 12/1996 | $7,000,000 | 40,048 | 6,106 |
| NAVAL AIR ENGINEERING CENTER | 02L5 | Remedial Action | 08/1994 | $750,000 | 21,899 | 1,361 |
| NAVAL WEAPONS STATION EARLE (S | 02F5 | Remedial Action | 03/1998 | $1,050,000 | 35,648 | 5,353 |
| NL INDUSTRIES | 0261 | Remedial Action | 06/1998 | $500,000 | 22,413 | 3,495 |
| PEPE FIELD | 0289 | Remedial Action | 12/1997 | $12,000,000 | 52,351 | 6,101 |

***NOTE: Candidate sites are projections subject to change, deletion, or substitution due to resource/scheduling changes, project timing, and risk-based ranking as detailed on page 1 of this document.

# Candidates for Construction Completion by the End of Calendar Year 2000***

## Site Summary

| Site Name | SSID | Last Event | Last Event Start Date (MM/YYYY) | Estimated Funds Needed to Achieve Completion | Population within 4 Miles of Site | Children within 4 Miles of Site |
|---|---|---|---|---|---|---|
| PJP LANDFILL | 0285 | Remedial Action | 09/1998 | $1,981,140 | 319,996 | 42,243 |
| PRICE LANDFILL | 0212 | Remedial Action | 09/1998 | $0 | 41,622 | 5,841 |
| RADIATION TECHNOLOGY, INC | 02X5 | Remedial Action | 06/1999 | $200,000 | 16,846 | 2,585 |
| REICH FARMS | 0249 | Remedial Action | 09/1997 | $200,000 | 55,522 | 6,179 |
| ROCKAWAY TOWNSHIP WELLS | 0263 | Remedial Action | * | $200,000 | 51,338 | 6,750 |
| ROCKY HILL MUNICIPAL WELL | 0264 | Remedial Action | 06/1999 | $1,500,000 | 30,117 | 2,867 |
| SAYREVILLE LANDFILL | 02C4 | Remedial Action | 06/1998 | ** | 84,322 | 11,035 |
| SHARKEY LANDFILL | 0266 | Remedial Action | 03/1998 | $200,000 | 64,153 | 7,033 |
| SOUTH JERSEY CLOTHING CO | 023S | Remedial Action | 09/1996 | $7,000,000 | 13,777 | 1,763 |
| SWOPE OIL & CHEMICAL CO | 0232 | Remedial Action | 03/1996 | $100,000 | 253,329 | 35,002 |
| UNIVERSAL OIL PRODUCTS(CHEMICA | 02C8 | Remedial Action | 11/1995 | $200,000 | 234,186 | 27,572 |
| WALDICK AEROSPACE DEVICES, INC | 02F4 | Remedial Action | 03/1999 | $8,753,665 | 59,455 | 6,685 |
| WOODLAND ROUTE 532 DUMP | 02C1 | Remedial Action | 03/1998 | $200,000 | 608 | 97 |
| WOODLAND ROUTE 72 DUMP | 02B9 | Remedial Action | 03/1998 | $200,000 | 210 | 37 |
| | | | | $95,011,725 | | |
| **State: NY** | | | | | | |
| AMERICAN THERMOSTAT CO | 0277 | Remedial Action | 06/1993 | $4,000,000 | 4,745 | 692 |
| BATAVIA LANDFILL | 0222 | Remedial Action | 06/1996 | $200,000 | 8,402 | 1,363 |
| BYRON BARREL & DRUM | 02D6 | Remedial Action | 12/1998 | $600,000 | 2,101 | 337 |
| CARROLL & DUBIES SEWAGE DISPOS | 021Q | Remedial Action | 09/1998 | $4,131,140 | 15,668 | 2,564 |
| CIRCUITRON CORP | 021E | Remedial Action | 12/1996 | $3,000,000 | 103,319 | 13,468 |
| CLAREMONT POLYCHEMICAL | 022K | Remedial Action | 03/2000 | $4,500,000 | 109,286 | 12,991 |
| COLESVILLE MUNICIPAL LANDFILL | 02H4 | Remedial Action | 12/1997 | $400,000 | 1,626 | 298 |
| ENDICOTT VILLAGE WELL FIELD | 02E7 | Remedial Action | 08/1995 | $0 | 42,532 | 6,080 |
| FACET ENTERPRISES, INC | 0223 | Remedial Action | 05/1996 | $0 | 49,231 | 6,937 |
| FMC CORP. (DUBLIN ROAD LANDFIL | 021P | Remedial Action | 05/1994 | $0 | 7,926 | 1,235 |
| FULTON TERMINALS | 0275 | Remedial Action | 03/1995 | $0 | 17,503 | 2,840 |
| GCL TIE AND TREATING INC | 026X | Remedial Action | 09/1998 | $12,000,000 | | |
| GENZALE PLATING CO | 02P3 | Remedial Action | 09/1998 | $4,207,140 | 320,723 | 37,383 |
| GOLDISC RECORDINGS, INC | 02W8 | Remedial Action | 06/1997 | $0 | 100,346 | 14,097 |
| HAVILAND COMPLEX | 02E5 | Remedial Action | 09/1988 | $0 | 25,639 | 3,111 |
| HERTEL LANDFILL | 02H7 | Remedial Action | 12/1999 | $100,000 | 9,205 | 1,283 |
| HOOKER (102ND STREET) | 0209 | Remedial Action | 04/1996 | $200,000 | 43,456 | 5,680 |
| HOOKER (HYDE PARK) | 0211 | Remedial Action | 08/1987 | $0 | 57,863 | 8,031 |
| HOOKER (S AREA) | 0210 | Remedial Action | 06/1999 | $200,000 | 68,981 | 9,533 |
| HOOKER CHEMICAL/RUCO POLYMER C | 02X3 | Remedial Action | 09/1999 | ** | 211,054 | 25,702 |
| ISLIP MUNICIPAL SANITARY LANDF | 02T2 | Remedial Action | 03/1995 | $0 | 112,403 | 15,537 |
| JOHNSTOWN CITY LANDFILL | 02H6 | Remedial Action | 02/1996 | $0 | 24,962 | 3,638 |
| JONES SANITATION | 02X7 | Remedial Action | 09/1998 | $2,226,000 | 19,988 | 2,635 |
| KENTUCKY AVENUE WELL FIELD | 0234 | Remedial Action | 06/1999 | $1,981,140 | 39,417 | 5,435 |
| LI TUNGSTEN CORP | 024L | Remedial Action | 06/1999 | ** | 47,855 | 5,499 |

***NOTE: Candidate sites are projections subject to change, deletion, or substitution due to resource/scheduling changes, project timing, and risk-based ranking as detailed on page 1 of this document.

# Candidates for Construction Completion by the End of Calendar Year 2000***

## Site Summary

| Site Name | SSID | Last Event | Last Event Start Date (MM/YYYY) | Estimated Funds Needed to Achieve Completion | Population within 4 Miles of Site | Children within 4 Miles of Site |
|---|---|---|---|---|---|---|
| LOVE CANAL | 0205 | Remedial Action | 01/1997 | $200,000 | 43,860 | 5,692 |
| MALTA ROCKET FUEL AREA | 02P4 | Remedial Action | 09/1998 | $1,981,140 | 9,926 | 1,605 |
| MATTIACE PETROCHEMICAL CO., IN | 022B | Remedial Action | 09/1996 | $9,300,000 | 56,874 | 6,542 |
| NIAGARA COUNTY REFUSE | 0224 | Remedial Action | 09/1997 | $100,000 | 62,277 | 8,620 |
| NIAGARA MOHAWK POWER CO(SARATO | 023F | Remedial Action | 06/1998 | $350,000 | 26,578 | 3,098 |
| OLEAN WELL FIELD | 0216 | Remedial Action | 12/1998 | $6,378,650 | 21,249 | 3,313 |
| PFOHL BROTHERS LANDFILL | 029L | Remedial Action | 12/1997 | $200,000 | | |
| PLATTSBURGH AIR FORCE BASE | 02Z1 | Remedial Action | * | $1,250,000 | 38,064 | 5,640 |
| POLLUTION ABATEMENT SERVICES | 0206 | Removal | 09/1999 | ** | 21,166 | 2,918 |
| PORT WASHINGTON LANDFILL | 0278 | Remedial Action | 06/1999 | $400,000 | 115,876 | 13,453 |
| PREFERRED PLATING CORP | 02R4 | Remedial Action | 04/1994 | $0 | 161,977 | 20,822 |
| RAMAPO LANDFILL | 0248 | Remedial Action | 06/1994 | $0 | 29,218 | 3,502 |
| ROBINTECH, INC./NATIONAL PIPE | 02G3 | Remedial Action | 12/1998 | ** | 67,595 | 7,638 |
| ROWE INDUSTRIES GND WATER CONT | 02E3 | Remedial Action | 12/1997 | ** | 6,755 | 775 |
| SARNEY FARM | 02G4 | Remedial Action | 01/1997 | $0 | 5,920 | 755 |
| SEALAND RESTORATION, INC | 022M | Remedial Action | 03/1999 | $2,244,860 | 1,738 | 311 |
| SINCLAIR REFINERY | 0235 | Remedial Action | 03/1995 | $0 | 7,088 | 995 |
| SOLVENT SAVERS | 0280 | Remedial Action | 09/1998 | $600,000 | 911 | 145 |
| SYOSSET LANDFILL | 0239 | Remedial Action | 07/1996 | ** | 131,172 | 15,298 |
| VESTAL WATER SUPPLY WELL 1-1 | 0238 | Remedial Action | 03/1997 | $1,500,000 | 53,408 | 7,229 |
| VESTAL WATER SUPPLY WELL 4-2 | 028M | Remedial Action | 03/1992 | $0 | 67,984 | 7,786 |
| WARWICK LANDFILL | 02P1 | Remedial Action | 08/1995 | $0 | 9,796 | 1,470 |
| | | | | $62,250,070 | | |
| **State: PR** | | | | | | |
| FIBERS PUBLIC SUPPLY WELLS | 02C2 | Remedial Action | 09/1995 | $175,000 | 0 | 0 |
| FRONTERA CREEK | 0270 | Remedial Action | 12/1994 | $0 | 0 | 0 |
| GE WIRING DEVICES | 0273 | Remedial Action | 02/1996 | $75,000 | 0 | 0 |
| NAVAL SECURITY GROUP ACTIVITY | 025L | Remedial Action | 03/1998 | $450,000 | 0 | 0 |
| UPJOHN FACILITY | 0245 | Remedial Action | 02/1992 | $0 | 0 | 0 |
| VEGA ALTA PUBLIC SUPPLY WELLS | 02A1 | Remedial Action | 03/1999 | ** | 0 | 0 |
| | | | | $700,000 | | |
| | | | | $157,961,795 | | |

***NOTE: Candidate sites are projections subject to change, deletion, or substitution due to resource/scheduling changes, project timing, and risk-based ranking as detailed on page 1 of this document.

# Candidates for Construction Completion by the End of Calendar Year 2000***

## Site Summary

| Site Name | SSID | Last Event | Last Event Start Date (MM/YYYY) | Estimated Funds Needed to Achieve Completion | Population within 4 Miles of Site | Children within 4 Miles of Site |
|---|---|---|---|---|---|---|
| **Region 03** | | | | | | |
| **State: DE** | | | | | | |
| CHEM-SOLV, INC | 03N5 | Remedial Action | 06/1997 | $0 | 14,665 | 2,182 |
| DELAWARE SAND & GRAVEL LANDFIL | 0345 | Remedial Action | 07/1996 | $0 | 49,299 | 7,352 |
| DOVER AIR FORCE BASE | 03G6 | Remedial Action | 09/1998 | $1,050,000 | 30,666 | 5,415 |
| | | | | $1,050,000 | | |
| **State: MD** | | | | | | |
| ABERDEEN PROVING GROUND(MICHAE | 03N9 | Remedial Action | * | $900,000 | 11,160 | 1,987 |
| BUSH VALLEY LANDFILL | 03R3 | Remedial Action | 12/1998 | $370,905 | 27,762 | 5,122 |
| LIMESTONE ROAD | 0363 | Remedial Action | 12/1997 | $0 | 24,916 | 3,125 |
| SOUTHERN MARYLAND WOOD TREATIN | 03E8 | Remedial Action | 03/1997 | $20,000,000 | 7,044 | 1,123 |
| WOODLAWN COUNTY LANDFILL | 03E3 | Remedial Action | 03/1998 | $228,000 | 10,254 | 1,570 |
| | | | | $21,498,905 | | |
| **State: PA** | | | | | | |
| A.I.W. FRANK/MID-COUNTY MUSTAN | 032S | Remedial Action | 12/1998 | $6,226,000 | 45,281 | 6,361 |
| AUSTIN AVENUE RADIATION SITE | 036X | Remedial Action | 12/1994 | $0 | 434,083 | 62,438 |
| AVCO LYCOMING (WILLIAMSPORT DI | 03Y6 | Remedial Action | 06/1997 | $150,000 | 46,991 | 6,690 |
| BALLY GROUND WATER CONTAMINATI | 03J5 | Remedial Action | 03/1999 | $336,500 | 9,300 | 1,371 |
| BELL LANDFILL | 03S4 | Remedial Action | 03/1998 | $70,000 | 1,324 | 192 |
| BERKLEY PRODUCTS CO DUMP | 03Y1 | Remedial Action | 12/1997 | $4,700,000 | 12,915 | 2,063 |
| BLOSENSKI LANDFILL | 0349 | Remedial Action | 03/1997 | $0 | 11,728 | 2,079 |
| BRODHEAD CREEK | 0328 | Remedial Action | 05/1994 | $0 | 24,643 | 2,714 |
| BUTLER MINE TUNNEL | 03H3 | Remedial Action | 03/1998 | $2,226,000 | 47,781 | 5,379 |
| BUTZ LANDFILL | 03Q6 | Remedial Action | 09/1997 | $5,000,000 | 7,026 | 1,051 |
| C & D RECYCLING | 03L8 | Remedial Action | 12/1997 | $200,000 | 5,785 | 658 |
| COMMODORE SEMICONDUCTOR GROUP | 03P8 | Remedial Action | 12/1997 | $60,000 | 52,915 | 6,120 |
| CRYOCHEM, INC | 03M9 | Remedial Action | 09/1993 | $17,570,000 | 16,007 | 2,135 |
| DORNEY ROAD LANDFILL | 03 6 | Remedial Action | 12/1995 | $0 | 12,649 | 1,710 |
| DOUGLASSVILLE DISPOSAL | 0351 | Remedial Action | 06/1999 | ** | 15,184 | 2,246 |
| DRAKE CHEMICAL | 0331 | Remedial Action | 03/1998 | $36,375,000 | 17,783 | 1,936 |
| EAST MOUNT ZION | 0398 | Remedial Action | 09/1994 | $0 | 34,165 | 3,840 |
| FISCHER & PORTER CO | 0308 | Remedial Action | 12/1997 | ** | 102,328 | 13,820 |
| HELEVA LANDFILL | 0359 | Remedial Action | 09/1997 | $200,000 | 16,917 | 2,421 |
| INDUSTRIAL LANE | 0399 | Remedial Action | 08/1996 | $200,000 | 73,725 | 10,135 |
| KEYSTONE SANITATION LANDFILL | 03L9 | Remedial Action | 09/1999 | ** | 8,212 | 1,179 |
| LINDANE DUMP | 0393 | Remedial Action | 09/1997 | $0 | 40,846 | 4,779 |
| MALVERN TCE | 0391 | Remedial Action | 09/1999 | ** | 22,403 | 2,841 |
| METAL BANKS | 0305 | Remedial Action | 03/1999 | ** | 269,662 | 33,212 |
| METROPOLITAN MIRROR AND GLASS | 038D | Remedial Action | 09/1997 | ** | 19,475 | 1,912 |

***NOTE: Candidate sites are projections subject to change, deletion, or substitution due to resource/scheduling changes, project timing, and risk-based ranking as detailed on page 1 of this document.

# Candidates for Construction Completion by the End of Calendar Year 2000***

## Site Summary

| Site Name | SSID | Last Event | Last Event Start Date (MM/YYYY) | Estimated Funds Needed to Achieve Completion | Population within 4 Miles of Site | Children within 4 Miles of Site |
|---|---|---|---|---|---|---|
| MILL CREEK DUMP | 0360 | Remedial Action | 05/1992 | $150,000 | 62,165 | 8,693 |
| MOYERS LANDFILL | 0353 | Remedial Action | 03/1998 | $2,226,000 | 39,685 | 4,967 |
| NORTH PENN - AREA 1 | 03W8 | Remedial Action | 06/1997 | $625,000 | 40,856 | 6,337 |
| NOVAK SANITARY LANDFILL | 03Q2 | Remedial Action | 12/1997 | $170,000 | 34,463 | 4,327 |
| OCCIDENTAL CHEMICAL CORP./FIRE | 03S9 | Remedial Action | 06/1997 | $0 | 45,391 | 6,810 |
| OHIO RIVER PARK | 034L | Remedial Action | 12/1997 | $2,226,000 | 39,000 | 4,734 |
| OSBORNE LANDFILL | 0338 | Remedial Action | 01/1995 | ** | 14,045 | 1,509 |
| PUBLICKER INDUSTRIES INC | 033A | Remedial Action | 06/1997 | $0 | 337,195 | 44,889 |
| RECTICON/ALLIED STEEL CORP | 03S5 | Remedial Action | 12/1997 | $250,000 | 29,694 | 4,628 |
| REVERE CHEMICAL CO | 03A8 | Remedial Action | 06/1997 | $0 | 5,906 | 879 |
| SAEGERTOWN INDUSTRIAL AREA | 03T1 | Remedial Action | 03/1998 | $200,000 | 7,558 | 1,012 |
| STANLEY KESSLER | 0307 | Remedial Action | 09/1997 | $0 | 102,051 | 11,859 |
| TONOLLI CORP | 031H | Remedial Action | 12/1997 | $150,000 | 12,135 | 1,465 |
| TYSONS DUMP | 0356 | Remedial Action | 03/1997 | $0 | 99,067 | 12,144 |
| WALSH LANDFILL | 0387 | Remedial Action | 06/2000 | ** | 7,770 | 1,468 |
| WESTINGHOUSE ELEVATOR CO. PLAN | 03A7 | Remedial Action | 09/1997 | $100,000 | 13,965 | 1,484 |
| WHITMOYER LABORATORIES | 03C9 | Remedial Action | 06/1998 | $548,810 | 14,333 | 2,126 |
| | | | | $79,959,310 | | |
| **State: VA** | | | | | | |
| ARROWHEAD ASSOCIATES/SCOVILL C | 03Q9 | Remedial Action | 09/1998 | $200,000 | 2,361 | 296 |
| BUCKINGHAM COUNTY LANDFILL | 03M8 | Remedial Action | 09/1997 | $114,290 | 1,049 | 139 |
| DIXIE CAVERNS COUNTY LANDFILL | 03R9 | Remedial Action | 08/1994 | $0 | 4,010 | 491 |
| L.A. CLARKE & SON | 03F9 | Remedial Action | 09/1997 | $120,000 | 12,368 | 1,838 |
| RENTOKIL, INC. (VA WOOD PRESER | 03N4 | Remedial Action | 09/1997 | $180,900 | 82,705 | 9,873 |
| SAUNDERS SUPPLY CO | 03P6 | Removal | 06/1997 | $0 | 3,568 | 453 |
| U.S. TITANIUM | 0343 | Remedial Action | 08/1994 | $0 | 1,936 | 274 |
| | | | | $615,190 | | |
| | | | | $103,123,405 | | |

***NOTE: Candidate sites are projections subject to change, deletion, or substitution due to resource/scheduling changes, project timing, and risk-based ranking as detailed on page 1 of this document.

# Candidates for Construction Completion by the End of Calendar Year 2000***

## Site Summary

| Site Name | SSID | Last Event | Last Event Start Date (MM/YYYY) | Estimated Funds Needed to Achieve Completion | Population within 4 Miles of Site | Children within 4 Miles of Site |
|---|---|---|---|---|---|---|
| **Region 04** | | | | | | |
| **State: AL** | | | | | | |
| CIBA-GEIGY CORP. (MCINTOSH PLA | 04B1 | Remedial Action | 03/1998 | $650,000 | 1,741 | 338 |
| INTERSTATE LEAD CO. (ILCO) | 04J4 | Remedial Action | 09/1997 | $250,000 | 10,735 | 1,663 |
| OLIN CORP. (MCINTOSH PLANT) | 04B6 | Remedial Action | 03/1999 | $500,000 | 1,894 | 367 |
| T.H. AGRICULTURE & NUTRITION (FL | 046C | Remedial Action | 09/1998 | $550,000 | 24,310 | 4,854 |
| | | | | $1,950,000 | | |
| **State: FL** | | | | | | |
| AGRICO CHEMICAL CO | 048F | Remedial Action | 12/1998 | $400,000 | 92,907 | 13,698 |
| AIRCO PLATING CO | 043K | Remedial Action | 09/1997 | $200,000 | 345,560 | 48,698 |
| ANODYNE, INC | 04S1 | Remedial Action | 03/1997 | $2,750,000 | 255,592 | 41,406 |
| CABOT/KOPPERS | 0416 | Remedial Action | 09/1999 | ** | 78,956 | 8,958 |
| CHEVRON CHEMICAL CO. (ORTHO DI | 04KG | Remedial Action | 06/1998 | $2,226,000 | | |
| COLEMAN-EVANS WOOD PRESERVING | 0441 | Remedial Action | 06/1998 | $25,300,000 | 18,577 | 3,444 |
| FLORIDA STEEL CORP | 0478 | Remedial Action | 01/1996 | $0 | 3,955 | 679 |
| HARRIS CORP. (PALM BAY PLANT) | 04L8 | Remedial Action | 06/1997 | $0 | 60,669 | 7,472 |
| KASSAUF-KIMERLING BATTERY DISP | 0456 | Remedial Action | 09/1994 | $0 | 79,166 | 13,510 |
| MUNISPORT LANDFILL | 0479 | Remedial Action | 03/1997 | $0 | 224,535 | 26,599 |
| PICKETTVILLE ROAD LANDFILL | 0469 | Remedial Action | 09/1993 | $0 | 81,858 | 13,123 |
| PIPER AIRCRAFT/VERO BEACH WATE | 041P | Remedial Action | 09/1997 | $200,000 | 260 | 43 |
| REEVES SOUTHEAST GALVANIZING C | 0440 | Remedial Action | 09/1998 | $400,000 | 55,109 | 9,097 |
| SCHUYLKILL METALS CORP | 0451 | Remedial Action | 06/1994 | $0 | 35,474 | 5,708 |
| SHERWOOD MEDICAL INDUSTRIES | 0453 | Remedial Action | * | ** | 24,003 | 2,780 |
| SYDNEY MINE SLUDGE PONDS | 041R | Remedial Action | 09/1999 | $200,000 | 22,073 | 3,359 |
| TAYLOR ROAD LANDFILL | 0408 | Remedial Action | 12/1997 | $1,981,140 | 46,890 | 7,578 |
| USAF HOMESTEAD AFB | 04CH | Remedial Action | 09/1998 | $2,055,000 | 58,901 | 11,307 |
| USN AIR STATION CECIL FIELD | 04CB | Remedial Action | 06/1999 | $1,550,000 | 0 | 0 |
| ZELLWOOD GROUND WATER CONTAMIN | 0497 | Remedial Action | 09/1997 | $5,500,000 | 7,817 | 973 |
| | | | | $42,762,140 | | |
| **State: GA** | | | | | | |
| FIRESTONE TIRE & RUBBER CO(ALB | 04AL | Remedial Action | 06/1996 | $200,000 | 15,221 | 2,756 |
| HERCULES 009 LANDFILL | 0425 | Remedial Action | 06/1997 | $0 | 28,435 | 4,638 |
| MARZONE INC./CHEVRON CHEMICAL | 04E9 | Remedial Action | 09/1999 | ** | 20,674 | 3,421 |
| MATHIS BROTHERS LANDFILL | 042Q | Remedial Action | 03/1997 | $250,000 | 2,911 | 430 |
| T.H. AGRICULTURE & NUTRITION (GA | 044D | Remedial Action | 12/1997 | $1,981,140 | 41,985 | 6,581 |
| USAF ROBINS AFB (LNDFL/SLUDGE | 04K1 | Remedial Action | 01/1997 | $150,000 | 52,878 | 8,706 |
| USMC LOGISTICS BASE 555 | 04CG | Remedial Action | 03/1998 | $505,000 | 23,361 | 4,358 |
| | | | | $3,086,140 | | |

***NOTE: Candidate sites are projections subject to change, deletion, or substitution due to resource/scheduling changes, project timing, and risk-based ranking as detailed on page 1 of this document.

# Candidates for Construction Completion by the End of Calendar Year 2000***

## Site Summary

| Site Name | SSID | Last Event | Last Event Start Date (MM/YYYY) | Estimated Funds Needed to Achieve Completion | Population within 4 Miles of Site | Children within 4 Miles of Site |
|---|---|---|---|---|---|---|
| **State: KY** | | | | | | |
| AIRCO | 0460 | Remedial Action | 09/1995 | $0 | 3,588 | 424 |
| B.F. GOODRICH | 0461 | Remedial Action | 09/1995 | $0 | 3,575 | 422 |
| BRANTLEY LANDFILL | 044C | Remedial Action | 06/1997 | $0 | 1,974 | 265 |
| FORT HARTFORD COAL CO. STONE Q | 043Z | Remedial Action | 03/1997 | $150,000 | 1,397 | 196 |
| GREEN RIVER DISPOSAL, INC | 047M | Remedial Action | 04/1996 | $0 | 3,000 | 472 |
| NATIONAL ELECTRIC COIL/COOPER | 04ET | Remedial Action | 03/1997 | $0 | 8,745 | 1,204 |
| NATIONAL SOUTHWIRE ALUMINUM CO | 042R | Remedial Action | 06/1998 | ** | | |
| SMITH'S FARM | 04D1 | Remedial Action | 03/1996 | $0 | 16,467 | 2,528 |
| | | | | $150,000 | | |
| **State: MS** | | | | | | |
| NEWSOM BROTHERS/OLD REICHHOLD | 04C3 | Remedial Action | 03/1998 | ** | 10,031 | 1,512 |
| | | | | $0 | | |
| **State: NC** | | | | | | |
| ABC ONE HOUR CLEANERS | 049E | Remedial Action | 12/1997 | $1,000,000 | 46,122 | 10,177 |
| BENFIELD INDUSTRIES, INC | 04AM | Remedial Action | 09/1996 | $0 | 14,070 | 1,589 |
| BYPASS 601 GROUND WATER CONTAM | 04G6 | Remedial Action | 09/1997 | $9,391,800 | 38,522 | 5,087 |
| CAPE FEAR WOOD PRESERVING | 04G2 | Remedial Action | 09/1994 | $0 | 67,285 | 12,680 |
| CAROLINA TRANSFORMER CO | 04C2 | Remedial Action | 03/1997 | $11,703,800 | 27,173 | 3,861 |
| FCX, INC. (STATESVILLE PLANT) | 048M | Remedial Action | 12/1997 | $8,039,320 | 23,633 | 3,113 |
| FCX, INC. (WASHINGTON PLANT) | 049H | Remedial Action | 09/1998 | $3,396,000 | 11,893 | 1,655 |
| GEIGY CHEMICAL CORP. (ABERDEEN | 045W | Remedial Action | 09/1996 | $150,000 | 13,774 | 1,920 |
| GENERAL ELECTRIC CO./SHEPHERD | 04JG | Remedial Action | 09/1998 | $400,000 | | |
| JFD ELECTRONICS/CHANNEL MASTER | 043L | Remedial Action | 09/1996 | $200,000 | 10,147 | 1,343 |
| KOPPERS CO. INC. (MORRISVILLE | 048Q | Remedial Action | 06/1995 | $0 | 6,056 | 897 |
| MARTIN-MARIETTA, SODYECO, INC | 0467 | Remedial Action | 09/1989 | $0 | 28,652 | 3,726 |
| NATIONAL STARCH & CHEMICAL COR | 04L7 | Remedial Action | 09/1998 | $401,000 | 19,499 | 2,682 |
| NC STATE UNIVERSITY(LOT 86,FAR | 04G7 | Remedial Action | 12/1998 | $2,226,000 | 64,072 | 5,949 |
| | | | | $36,907,920 | | |
| **State: SC** | | | | | | |
| BEAUNIT CORP. (CIRCULAR KNIT & | 047J | Remedial Action | 12/1997 | $200,000 | 15,706 | 2,715 |
| CAROLAWN, INC | 0429 | Remedial Action | 05/1993 | $0 | 2,269 | 345 |
| ELMORE WASTE DISPOSAL | 04N3 | Remedial Action | 09/1996 | $0 | 22,025 | 3,033 |
| GEIGER (C & M OIL) | 0424 | Remedial Action | 01/1994 | $2,750,000 | 4,674 | 826 |
| HELENA CHEMICAL CO. LANDFILL | 041W | Remedial Action | 06/1997 | $0 | 3,088 | 416 |
| KALAMA SPECIALTY CHEMICALS | 04A5 | Remedial Action | 09/1997 | $200,000 | 12,531 | 2,935 |
| KOPPERS CO., INC. (CHARLESTON | 046L | Remedial Action | 12/1998 | $400,000 | | |
| LEONARD CHEMICAL CO., INC | 04B3 | Remedial Action | 09/1999 | ** | 4,750 | 755 |
| LEXINGTON COUNTY LANDFILL AREA | 04T3 | Remedial Action | 09/1996 | $0 | 27,099 | 3,915 |

***NOTE: Candidate sites are projections subject to change, deletion, or substitution due to resource/scheduling changes, project timing, and risk-based ranking as detailed on page 1 of this document.

# Candidates for Construction Completion by the End of Calendar Year 2000***

## Site Summary

| Site Name | SSID | Last Event | Last Event Start Date (MM/YYYY) | Estimated Funds Needed to Achieve Completion | Population within 4 Miles of Site | Children within 4 Miles of Site |
|---|---|---|---|---|---|---|
| PALMETTO RECYCLING, INC | 044E | Remedial Action | 06/1998 | $200,000 | 15,782 | 2,284 |
| PALMETTO WOOD PRESERVING | 04B7 | Remedial Action | 03/1990 | $0 | 21,130 | 3,120 |
| PARA-CHEM SOUTHERN, INC | 045P | Remedial Action | 02/1996 | $0 | 22,539 | 3,761 |
| SANGAMO WESTON/TWELVE-MILE/HAR | 04P4 | Remedial Action | 09/1998 | $2,476,000 | 49,596 | 6,806 |
| SCRDI BLUFF ROAD | 0415 | Remedial Action | 12/1995 | $0 | 3,559 | 553 |
| TOWNSEND SAW CHAIN CO | 043B | Remedial Action | 06/1998 | $200,000 | 12,979 | 2,088 |
| WAMCHEM, INC | 04A4 | Remedial Action | 07/1995 | $0 | 7,802 | 1,745 |
| | | | | $6,426,000 | | |
| **State: TN** | | | | | | |
| AMERICAN CREOSOTE WORKS, (JACK | 0472 | Remedial Action | 03/1998 | ** | 39,298 | 5,703 |
| ARLINGTON BLENDING & PACKAGING | 0484 | Remedial Action | 12/1994 | $0 | 3,337 | 437 |
| MURRAY-OHIO DUMP | 0496 | Remedial Action | 07/1996 | $200,000 | 9,464 | 1,292 |
| NORTH HOLLYWOOD DUMP | 0427 | Remedial Action | 09/1993 | $0 | 154,291 | 24,627 |
| VELSICOL CHEMICAL CORP (HARDEM | 0475 | Remedial Action | 06/1997 | $0 | 1,163 | 167 |
| WRIGLEY CHARCOAL PLANT | 04X6 | Remedial Action | 03/1995 | $0 | 2,128 | 311 |
| | | | | $200,000 | | |
| | | | | $91,482,200 | | |

***NOTE: Candidate sites are projections subject to change, deletion, or substitution due to resource/scheduling changes, project timing, and risk-based ranking as detailed on page 1 of this document.

# Candidates for Construction Completion by the End of Calendar Year 2000***

## Site Summary

| Site Name | SSID | Last Event | Last Event Start Date (MM/YYYY) | Estimated Funds Needed to Achieve Completion | Population within 4 Miles of Site | Children within 4 Miles of Site |
|---|---|---|---|---|---|---|
| **Region 05** | | | | | | |
| **State: IL** | | | | | | |
| ACME SOLVENT RECLAIMING INC | 0579 | Remedial Action | 06/1997 | $0 | 9,336 | 1,419 |
| ADAMS COUNTY QUINCY LDFL SITE | 05AY | Remedial Action | 09/1997 | $200,000 | 2,939 | 478 |
| BYRON SALVAGE YARD | 0592 | Remedial Action | 06/1998 | ** | 2,714 | 401 |
| CIRCLE SMELTING CORP | 05WJ | Removal | 06/1997 | $11,600,000 | | |
| DUPAGE COUNTY LDFL/BLACKWELL F | 056Y | Remedial Action | 03/1999 | ** | 67,267 | 11,092 |
| GALESBURG / KOPPERS CO | 05C8 | Remedial Action | 05/1995 | $0 | 16,099 | 1,959 |
| H O D LDFL | 052F | Remedial Action | 09/1998 | ** | 18,681 | 2,858 |
| ILADA ENERGY CO | 058G | Remedial Action | 06/1998 | ** | 2,986 | 462 |
| JENNSION WRIGHT CORP | 05W | Remedial Action | 09/1999 | ** | | |
| KERR-MCGEE (KRESS CREEK/WEST B | 05QS | Remedial Action | * | ** | 38,170 | 7,118 |
| KERR-MCGEE REED KEPPLER PARK | 05QT | Removal | 03/1996 | ** | 39,372 | 7,568 |
| KERR-MCGEE RESIDENTIAL AREAS | 05QV | Removal | 05/1995 | ** | 41,928 | 8,000 |
| KERR-MCGEE SEWAGE TRMT PLT SIT | 05Q | Remedial Action | 06/1992 | ** | 45,376 | 8,250 |
| NL INDUSTRIES/TARACORP LEAD SM | 05K7 | Remedial Action | 09/1997 | $8,000,000 | 51,376 | 8,756 |
| SE ROCKFORD GROUNDWATER CONT | 05DK | Remedial Action | 06/1999 | ** | 137,520 | 20,884 |
| TRI COUNTY LDFL WASTE MGMT OF | 052G | Remedial Action | 03/1998 | $567,290 | 53,929 | 9,685 |
| WOODSTOCK MUNICIPAL LDFL | 05DB | | 09/1998 | $0 | 17,147 | 2,662 |
| YEOMAN CREEK LDFL | 05Z2 | Remedial Action | 12/1998 | $2,238,000 | 104,003 | 17,043 |
| | | | | $22,605,290 | | |
| **State: IN** | | | | | | |
| AMERICAN CHEM SERV INC | 05J7 | Remedial Action | 09/1998 | $450,000 | 74,838 | 10,570 |
| CONRAIL RAILYARD ELKHART | 057Y | Remedial Action | 12/1999 | $6,200,000 | 57,520 | 9,502 |
| DOUGLAS ROAD UNIROYAL INC LDFL | 052H | Remedial Action | 09/1996 | $4,500,000 | 79,164 | 10,384 |
| ENVIRO-CHEM CORP | 0530 | Remedial Action | 09/1997 | $200,000 | 6,223 | 1,128 |
| FISHER CALO | 0513 | Remedial Action | 03/1998 | $125,000 | 3,519 | 565 |
| GALEN MEYER'S DUMP/DRUM SAL | 05R4 | Remedial Action | 12/1997 | $600,000 | 26,582 | 4,260 |
| HIMCO DUMP | 054J | Remedial Action | 03/1998 | $100,000 | 46,126 | 7,662 |
| LAKELAND DISPOSAL SERV INC | 057B | Remedial Action | 06/1997 | $200,000 | 2,807 | 463 |
| MARION (BRAGG) DUMP | 05B9 | Remedial Action | 09/1999 | ** | 38,389 | 5,304 |
| TIPPECANOE SAN LDFL | 057E | Remedial Action | 06/1999 | ** | 74,394 | 7,708 |
| WASTE INC LDFL | 05Z9 | Remedial Action | 09/1996 | $0 | 38,924 | 5,390 |
| | | | | $12,375,000 | | |
| **State: MI** | | | | | | |
| AIRCRAFT COMPONENTS (MICHIGAN | | Remedial Action | 09/1999 | ** | | |
| ALBION SHERIDAN TWP LDFL | 05AN | Remedial Action | 06/1997 | $100,000 | 11,206 | 1,535 |
| AVENUE "E" GROUNDWATER CONTAMI | 0580 | Removal | 09/1982 | $0 | 24,200 | 2,886 |
| BUTTERWORTH #2 LDFL SITE | 05D6 | Remedial Action | 06/1997 | $250,000 | 152,115 | 28,816 |

***NOTE: Candidate sites are projections subject to change, deletion, or substitution due to resource/scheduling changes, project timing, and risk-based ranking as detailed on page 1 of this document.

# Candidates for Construction Completion by the End of Calendar Year 2000***

## Site Summary

| Site Name | SSID | Last Event | Last Event Start Date (MM/YYYY) | Estimated Funds Needed to Achieve Completion | Population within 4 Miles of Site | Children within 4 Miles of Site |
|---|---|---|---|---|---|---|
| CANNELTON INDUSTRIES | 058R | Remedial Action | 03/1998 | $200,000 | 12,166 | 1,642 |
| CLARE WATER SUPPLY | 0555 | Remedial Action | 09/1997 | $200,000 | 4,787 | 743 |
| DUELL & GARDNER LDFL | 05C3 | Remedial Action | 09/1997 | $450,000 | 9,142 | 1,630 |
| ELECTROVOICE | 05E8 | Remedial Action | 05/1996 | ** | 9,800 | 1,491 |
| FOREST WASTE PRODUCTS | 05D5 | Remedial Action | 03/1996 | $0 | 3,993 | 576 |
| G & H LDFL | 0570 | Remedial Action | 06/1995 | $0 | 59,965 | 8,184 |
| H & K SALES (MICHIGAN RADIOLOG | | Remedial Action | 09/1998 | $100,000 | | |
| H. BROWN CO., INC. | 051A | Remedial Action | 12/1997 | $100,000 | 108,357 | 18,362 |
| IONIA CITY LDFL | 05D7 | Remedial Action | 03/1999 | ** | 12,986 | 1,507 |
| J & L LDFL | 052P | Remedial Action | 05/1996 | ** | 67,904 | 9,399 |
| K & L AVENUE LANDFILL | 0537 | Remedial Action | 12/1998 | $18,368,400 | 10,318 | 1,543 |
| KAYDON CORP | 05@9 | Remedial Action | 03/1999 | $2,226,000 | 52,695 | 8,402 |
| LIQUID DISPOSAL INC | 0562 | Remedial Action | 09/1992 | $0 | 62,080 | 8,633 |
| LOWER ECORSE CREEK DUMP | 05GU | Remedial Action | 09/1997 | $985,000 | | |
| MCGRAW-EDISON COMPANY | 05T9 | Remedial Action | 07/1990 | $0 | 12,369 | 1,749 |
| METAMORA LDFL | 05H9 | Remedial Action | 03/1998 | $225,000 | 4,115 | 606 |
| MICHIGAN DISPOSAL SERVICE (COR | 05Q2 | Remedial Action | * | $2,001,140 | 64,892 | 10,203 |
| MOTOR WHEEL | 05S5 | Remedial Action | 12/1997 | $200,000 | 104,874 | 15,009 |
| MUSKEGON CHEM CO | 05DL | Remedial Action | 06/1997 | $0 | 8,686 | 1,351 |
| ORGANIC CHEM INC | 059P | Remedial Action | 09/1998 | $2,226,000 | 66,387 | 11,209 |
| OTT/STORY/CORDOVA CHEM | 0502 | Remedial Action | 03/1995 | $5,200,000 | 13,349 | 2,129 |
| PARSONS CHEMICAL WORKS INC | 05DX | Removal | 06/1997 | ** | 11,037 | 1,727 |
| PEERLESS PLATING CO INC | 05G2 | Remedial Action | 09/1996 | $0 | 73,232 | 12,130 |
| PETOSKEY MUNICIPAL WELL FIELD | 0554 | Remedial Action | 06/1999 | $13,730,460 | 8,112 | 1,140 |
| SOUTH MACOMB DISPOSAL AUTHORIT | 05S4 | Remedial Action | 03/1999 | $2,226,000 | 17,961 | 3,326 |
| SPARTA LDFL | 053N | Remedial Action | 03/2000 | ** | 10,297 | 1,903 |
| SPARTAN CHEM CO | 05*T | Remedial Action | 06/1999 | $750,000 | 86,466 | 15,404 |
| SPRINGFIELD TOWNSHIP DUMP | 05A7 | Remedial Action | 03/1998 | $220,000 | 12,811 | 2,122 |
| STURGIS MUNICIPAL WELLS | 05J1 | Remedial Action | 10/1996 | $0 | 13,031 | 2,169 |
| TAR LAKE | 0571 | Remedial Action | 03/1999 | $575,000 | 2,609 | 434 |
| THERMO CHEM INC | 05W1 | Remedial Action | 12/1999 | ** | 18,010 | 2,889 |
| TORCH LAKE | 05S8 | Remedial Action | 09/1997 | $7,625,000 | 10,230 | 1,413 |
| VERONA WELL FIELD | 0551 | Remedial Action | 07/1995 | $20,000 | 42,086 | 6,602 |
| WASH KING LAUNDRY | 05B3 | Remedial Action | 09/1997 | $2,014,520 | 1,205 | 173 |
| | | | | $59,992,520 | | |
| **State: MN** | | | | | | |
| KOPPERS COKE | 0547 | Remedial Action | 05/1994 | $0 | 193,498 | 26,818 |
| LONG PRAIRIE GROUNDWATER CON | 05S1 | Remedial Action | 12/1993 | $1,300,000 | 3,335 | 491 |
| MACGILLIS & GIBBS CO/BELL LUMB | 05L1 | Remedial Action | 09/1997 | $10,400,000 | 99,613 | 12,565 |
| NEW BRIGHTON / ARDEN HILLS | 0540 | Remedial Action | 09/1997 | $225,000 | 140,252 | 19,484 |
| PERHAM ARSENIC | 05G9 | Remedial Action | 09/1996 | $0 | 2,998 | 496 |

***NOTE: Candidate sites are projections subject to change, deletion, or substitution due to resource/scheduling changes, project timing, and risk-based ranking as detailed on page 1 of this document.

# Candidates for Construction Completion by the End of Calendar Year 2000***

## Site Summary

| Site Name | SSID | Last Event | Last Event Start Date (MM/YYYY) | Estimated Funds Needed to Achieve Completion | Population within 4 Miles of Site | Children within 4 Miles of Site |
|---|---|---|---|---|---|---|
| CANNELTON INDUSTRIES | 058R | Remedial Action | 03/1998 | $200,000 | 12,166 | 1,642 |
| CLARE WATER SUPPLY | 0555 | Remedial Action | 09/1997 | $200,000 | 4,787 | 743 |
| DUELL & GARDNER LDFL | 05C3 | Remedial Action | 09/1997 | $450,000 | 9,142 | 1,630 |
| ELECTROVOICE | 05E8 | Remedial Action | 05/1996 | ** | 9,800 | 1,491 |
| FOREST WASTE PRODUCTS | 05D5 | Remedial Action | 03/1996 | $0 | 3,993 | 576 |
| G & H LDFL | 0570 | Remedial Action | 06/1995 | $0 | 59,965 | 8,184 |
| H & K SALES (MICHIGAN RADIOLOG | | Remedial Action | 09/1998 | $100,000 | | |
| H. BROWN CO., INC. | 051A | Remedial Action | 12/1997 | $100,000 | 108,357 | 18,362 |
| IONIA CITY LDFL | 05D7 | Remedial Action | 03/1999 | ** | 12,986 | 1,507 |
| J & L LDFL | 052P | Remedial Action | 05/1996 | ** | 67,904 | 9,399 |
| K & L AVENUE LANDFILL | 0537 | Remedial Action | 12/1998 | $18,368,400 | 10,318 | 1,543 |
| KAYDON CORP | 05@9 | Remedial Action | 03/1999 | $2,226,000 | 52,695 | 8,402 |
| LIQUID DISPOSAL INC | 0562 | Remedial Action | 09/1992 | $0 | 62,080 | 8,633 |
| LOWER ECORSE CREEK DUMP | 05GU | Remedial Action | 09/1997 | $985,000 | | |
| MCGRAW-EDISON COMPANY | 05T9 | Remedial Action | 07/1990 | $0 | 12,369 | 1,749 |
| METAMORA LDFL | 05H9 | Remedial Action | 03/1998 | $225,000 | 4,115 | 606 |
| MICHIGAN DISPOSAL SERVICE (COR | 05Q2 | Remedial Action | * | $2,001,140 | 64,892 | 10,203 |
| MOTOR WHEEL | 05S5 | Remedial Action | 12/1997 | $200,000 | 104,874 | 15,009 |
| MUSKEGON CHEM CO | 05DL | Remedial Action | 06/1997 | $0 | 8,686 | 1,351 |
| ORGANIC CHEM INC | 059P | Remedial Action | 09/1998 | $2,226,000 | 66,387 | 11,209 |
| OTT/STORY/CORDOVA CHEM | 0502 | Remedial Action | 03/1995 | $5,200,000 | 13,349 | 2,129 |
| PARSONS CHEMICAL WORKS INC | 05DX | Removal | 06/1997 | ** | 11,037 | 1,727 |
| PEERLESS PLATING CO INC | 05G2 | Remedial Action | 09/1996 | $0 | 73,232 | 12,130 |
| PETOSKEY MUNICIPAL WELL FIELD | 0554 | Remedial Action | 06/1999 | $13,730,460 | 8,112 | 1,140 |
| SOUTH MACOMB DISPOSAL AUTHORIT | 05S4 | Remedial Action | 03/1999 | $2,226,000 | 17,961 | 3,326 |
| SPARTA LDFL | 053N | Remedial Action | 03/2000 | ** | 10,297 | 1,903 |
| SPARTAN CHEM CO | 05*T | Remedial Action | 06/1999 | $750,000 | 86,466 | 15,404 |
| SPRINGFIELD TOWNSHIP DUMP | 05A7 | Remedial Action | 03/1998 | $220,000 | 12,811 | 2,122 |
| STURGIS MUNICIPAL WELLS | 05J1 | Remedial Action | 10/1996 | $0 | 13,031 | 2,169 |
| TAR LAKE | 0571 | Remedial Action | 03/1999 | $575,000 | 2,609 | 434 |
| THERMO CHEM INC | 05W1 | Remedial Action | 12/1999 | ** | 18,010 | 2,889 |
| TORCH LAKE | 05S8 | Remedial Action | 09/1997 | $7,625,000 | 10,230 | 1,413 |
| VERONA WELL FIELD | 0551 | Remedial Action | 07/1995 | $20,000 | 42,086 | 6,602 |
| WASH KING LAUNDRY | 05B3 | Remedial Action | 09/1997 | $2,014,520 | 1,205 | 173 |
| | | | | $59,992,520 | | |
| **State: MN** | | | | | | |
| KOPPERS COKE | 0547 | Remedial Action | 05/1994 | $0 | 193,498 | 26,818 |
| LONG PRAIRIE GROUNDWATER CON | 05S1 | Remedial Action | 12/1993 | $1,300,000 | 3,335 | 491 |
| MACGILLIS & GIBBS CO/BELL LUMB | 05L1 | Remedial Action | 09/1997 | $10,400,000 | 99,613 | 12,565 |
| NEW BRIGHTON / ARDEN HILLS | 0540 | Remedial Action | 09/1997 | $225,000 | 140,252 | 19,484 |
| PERHAM ARSENIC | 05G9 | Remedial Action | 09/1996 | $0 | 2,998 | 496 |

***NOTE: Candidate sites are projections subject to change, deletion, or substitution due to resource/scheduling changes, project timing, and risk-based ranking as detailed on page 1 of this document.

# Candidates for Construction Completion by the End of Calendar Year 2000***

## Site Summary

| Site Name | SSID | Last Event | Last Event Start Date (MM/YYYY) | Estimated Funds Needed to Achieve Completion | Population within 4 Miles of Site | Children within 4 Miles of Site |
|---|---|---|---|---|---|---|
| REILLY TAR & CHEM ST LOUIS PAR | 0506 | Remedial Action | 05/1996 | $0 | 123,909 | 14,143 |
| RITARI POST & POLE | 057Q | Remedial Action | 09/1997 | $3,000,000 | 657 | 106 |
| ST REGIS PAPER CO | 05J2 | Remedial Action | 01/1987 | $0 | 2,089 | 462 |
| WAITE PARK WELLS | 051T | Remedial Action | 08/1994 | $0 | 66,484 | 9,805 |
| | | | | $14,925,000 | | |
| **State: OH** | | | | | | |
| ALLIED CHEM & IRONTON COKE | 05E4 | Remedial Action | 06/1997 | $0 | 50,968 | 6,346 |
| ARCANUM IRON & METAL CO | 0596 | Remedial Action | 09/1997 | $1,650,000 | 4,402 | 633 |
| BUCKEYE RECLAMATION | 05B2 | Remedial Action | 03/2000 | $800,000 | 10,719 | 1,271 |
| CARDINGTON ROAD LDFL AKA SANIT | 05S9 | Remedial Action | 04/1996 | $180,000 | 138,017 | 19,404 |
| FULTZ LDFL | 05C6 | Remedial Action | 06/1997 | $250,000 | 11,334 | 1,738 |
| INDUSTRIAL EXCESS LDFL | 05W2 | Remedial Action | 09/1997 | $16,000,000 | 29,667 | 4,207 |
| ORMET CORP | 051Z | Remedial Action | 06/1997 | $0 | 6,493 | 896 |
| POWELL ROAD LDFL | 05H4 | Remedial Action | 06/1997 | $150,000 | 77,277 | 12,332 |
| PRISTINE INC | 0556 | Remedial Action | 03/1997 | $0 | 104,382 | 14,130 |
| REILLY TAR & CHEMICAL CORP (DO | 05BE | Remedial Action | 06/1998 | $2,226,000 | 28,015 | 3,817 |
| SKINNER LDFL | 0573 | Remedial Action | 06/1996 | $0 | 46,980 | 8,102 |
| SOUTH POINT PLT | 05J6 | Remedial Action | 12/1999 | ** | 34,295 | 4,281 |
| UNITED SCRAP LEAD CO., INC. | 05H5 | Remedial Action | 12/1997 | $650,000 | 28,757 | 4,158 |
| VAN DALE JUNKYARD | 0575 | Remedial Action | 04/1997 | $200,000 | 17,067 | 2,120 |
| | | | | $22,106,000 | | |
| **State: WI** | | | | | | |
| BETTER BRITE PLATING CHROME & | 055L | Remedial Action | 03/1998 | $2,045,000 | 32,533 | 4,402 |
| CITY DISPOSAL CORP LANDFILL | 05L8 | Remedial Action | 03/1995 | $140,000 | 9,176 | 1,417 |
| DELAVAN MUNI WELL #4 | 05M4 | Remedial Action | 06/1998 | ** | 10,145 | 1,569 |
| JANESVILLE ASH BEDS | 05L7 | Remedial Action | 09/1996 | $0 | 48,789 | 7,369 |
| JANESVILLE OLD LDFL | 05L6 | Remedial Action | 09/1996 | $0 | 49,306 | 7,491 |
| KOHLER CO LDFL | 05M5 | Remedial Action | 03/1999 | $0 | 48,416 | 7,083 |
| MADISON METROPOLITAN SEWERAGE | 05A | Remedial Action | 06/1999 | $400,000 | 80,409 | 7,803 |
| MASTER DSPL SERVICE LDFL | 05L4 | Remedial Action | 03/1994 | $0 | 30,611 | 4,576 |
| MUSKEGO SAN LDFL | 05J5 | Remedial Action | 06/1997 | $0 | 15,806 | 2,485 |
| NATIONAL PRESTO INDUSTRIES | 05X9 | Remedial Action | 12/1997 | $250,000 | 25,084 | 4,120 |
| SCRAP PROCESSIING COMPANY, INC | 05N1 | Remedial Action | 06/1998 | $3,300,000 | 5,807 | 926 |
| SPICKLER LDFL | 056J | Remedial Action | 06/1999 | ** | 2,618 | 479 |
| STOUGHTON CITY LDFL | 05T2 | Remedial Action | 09/1997 | $6,240,000 | 12,308 | 1,975 |
| TOMAH ARMORY | 056D | Remedial Action | 06/1993 | ** | 8,924 | 1,256 |
| TOMAH MUNICIPAL SAN LDFL | 053F | Remedial Action | * | ** | 8,874 | 1,245 |
| | | | | $12,375,000 | | |
| | | | | $144,378,810 | | |

***NOTE: Candidate sites are projections subject to change, deletion, or substitution due to resource/scheduling changes, project timing, and risk-based ranking as detailed on page 1 of this document.

# Candidates for Construction Completion by the End of Calendar Year 2000***

## Site Summary

| Site Name | SSID | Last Event | Last Event Start Date (MM/YYYY) | Estimated Funds Needed to Achieve Completion | Population within 4 Miles of Site | Children within 4 Miles of Site |
|---|---|---|---|---|---|---|
| **Region 06** | | | | | | |
| **State: AR** | | | | | | |
| MONROE AUTO EQUIPMENT (PARAGOU | 06M8 | Remedial Action | 09/1997 | $1,981,140 | 6,086 | 803 |
| SOUTH 8TH STREET LANDFILL | 06H8 | Remedial Action | 12/1998 | ** | 27,894 | 4,720 |
| VERTAC, INC | 0604 | Remedial Action | 12/1997 | $10,881,140 | 36,384 | 6,839 |
| | | | | $12,862,280 | | |
| **State: LA** | | | | | | |
| AGRICULTURE STREET LANDFILL | 06D7 | Removal | 06/1997 | $18,287,700 | | |
| AMERICAN CREOSOTE WORKS, INC ( | 06G3 | Removal | 12/1996 | $0 | 7,418 | 1,262 |
| BAYOU BONFOUCA | 0638 | Remedial Action | 02/1991 | $0 | 48,754 | 8,340 |
| COMBUSTION, INC | 06A2 | Remedial Action | 03/1999 | ** | 16,135 | 2,885 |
| D.L. MUD, INC | 06D6 | Remedial Action | 09/1997 | $0 | 8,160 | 1,388 |
| DUTCHTOWN TREATMENT PLANT | 0692 | Remedial Action | 09/1997 | $0 | 11,992 | 2,192 |
| GULF COAST VACUUM SERVICES | 065Y | Remedial Action | 06/1997 | $0 | 9,044 | 1,574 |
| MADISONVILLE CREOSOTE WORKS, I | 06AJ | Remedial Action | 12/1997 | ** | | |
| PAB OIL & CHEMICAL SERVICE, IN | 06D5 | Remedial Action | 06/1997 | $0 | 14,444 | 2,641 |
| PETRO-PROCESSORS OF LOUISIANA | 0607 | Remedial Action | 06/1987 | $0 | 7,569 | 1,238 |
| SOUTHERN SHIPBUILDING | 066Z | Remedial Action | 09/1995 | $0 | | |
| | | | | $18,287,700 | | |
| **State: NM** | | | | | | |
| AT&SF (ALBUQUERQUE) | 061R | Remedial Action | 09/1997 | ** | | |
| CLEVELAND MILL | 06G9 | Remedial Action | 09/1997 | $0 | 1,943 | 282 |
| LEE ACRES LANDFILL (USDOI) | 06D8 | Remedial Action | 09/1997 | $0 | 5,036 | 1,069 |
| | | | | $0 | | |
| **State: OK** | | | | | | |
| DOUBLE EAGLE REFINERY CO | 06B1 | Remedial Action | 06/1997 | $7,600,000 | 85,344 | 13,613 |
| HARDAGE/CRINER | 0608 | Remedial Action | 03/1998 | $0 | 1,011 | 157 |
| MOSLEY ROAD SANITARY LANDFILL | 06E7 | Remedial Action | 11/1995 | $200,000 | 52,519 | 7,797 |
| SAND SPRINGS PETROCHEMICAL COM | 0658 | Remedial Action | 09/1994 | $0 | 25,211 | 3,924 |
| | | | | $7,800,000 | | |
| **State: TX** | | | | | | |
| AIR FORCE PLANT #4 (GENERAL DY | 0649 | Remedial Action | 09/1997 | $50,000 | 83,462 | 12,641 |
| BAILEY WASTE DISPOSAL | 0677 | Remedial Action | 02/1992 | $100,000 | 18,166 | 2,712 |
| CRYSTAL CHEMICAL CO | 0617 | Remedial Action | 09/1997 | $0 | 241,482 | 34,847 |
| KOPPERS CO. INC (TEXARKANA PLA | 0679 | Remedial Action | 12/1997 | $150,000 | 56,587 | 8,446 |
| MOTCO, INC | 0602 | Remedial Action | 12/1993 | $80,000 | 22,620 | 3,547 |
| NORTH CAVALCADE STREET | 0678 | Remedial Action | 09/1993 | $1,000,000 | 201,353 | 34,443 |

***NOTE: Candidate sites are projections subject to change, deletion, or substitution due to resource/scheduling changes, project timing, and risk-based ranking as detailed on page 1 of this document.

# Candidates for Construction Completion by the End of Calendar Year 2000***

## Site Summary

| Site Name | SSID | Last Event | Last Event Start Date (MM/YYYY) | Estimated Funds Needed to Achieve Completion | Population within 4 Miles of Site | Children within 4 Miles of Site |
|---|---|---|---|---|---|---|
| PETRO-CHEMICAL SYSTEMS, (TURTL | 0681 | Remedial Action | 09/1997 | $1,150,000 | 1,097 | 150 |
| RSR CORP. | 062H | Remedial Action | 12/1997 | ** | | |
| SHERIDAN DISPOSAL SERVICES | 0690 | Remedial Action | 06/1998 | $250,000 | 757 | 106 |
| SOUTH CAVALCADE STREET | 0656 | Remedial Action | 01/1995 | $0 | 207,383 | 35,600 |
| UNITED CREOSOTING CO | 0655 | Remedial Action | 09/1993 | $0 | 29,284 | 4,949 |
| | | | | $2,780,000 | | |
| | | | | $41,729,980 | | |

***NOTE: Candidate sites are projections subject to change, deletion, or substitution due to resource/scheduling changes, project timing, and risk-based ranking as detailed on page 1 of this document.

# Candidates for Construction Completion by the End of Calendar Year 2000***

## Site Summary

| Site Name | SSID | Last Event | Last Event Start Date (MM/YYYY) | Estimated Funds Needed to Achieve Completion | Population within 4 Miles of Site | Children within 4 Miles of Site |
|---|---|---|---|---|---|---|
| **Region 07** | | | | | | |
| **State: IA** | | | | | | |
| DES MOINES TCE | 0725 | Removal | 03/1996 | $0 | 138,181 | 20,368 |
| ELECTRO-COATINGS, INC | 07Q7 | Remedial Action | 09/1998 | $0 | 91,224 | 12,317 |
| FARMERS' MUTUAL COOPERATIVE | 07Q8 | Remedial Action | 06/1997 | $0 | 1,150 | 189 |
| IOWA ARMY AMMUNITION PLANT | 07Y8 | Remedial Action | 12/1999 | $716,000 | 8,156 | 1,081 |
| MID-AMERICA TANNING CO | 077M | Remedial Action | 03/1998 | $2,711,000 | 879 | 158 |
| PEOPLES NATURAL GAS CO | 07BP | Remedial Action | 03/1994 | $0 | 53,429 | 7,267 |
| RED OAK CITY LANDFILL | 07X4 | Remedial Action | 06/1998 | $0 | 6,781 | 900 |
| SHELLER-GLOBE CORP. DISPOSAL | 079C | Remedial Action | 09/1997 | $2,226,000 | 5,343 | 739 |
| | | | | $5,653,000 | | |
| **State: KS** | | | | | | |
| 57TH AND NORTH BROADWAY STREET | 07EF | Remedial Action | 06/1999 | ** | 764 | 109 |
| CHEMICAL COMMODITIES INC | 07L3 | Remedial Action | 09/1999 | ** | | |
| DOEPKE DISPOSAL (HOLLIDAY) | 0712 | Remedial Action | 03/1995 | $35,000 | 22,662 | 3,840 |
| | | | | $35,000 | | |
| **State: MO** | | | | | | |
| BEE CEE MANUFACTURING CO | 071T | Remedial Action | 03/1998 | ** | 6,324 | 939 |
| ELLISVILLE SITE | 0708 | Remedial Action | 09/1997 | $0 | 38,235 | 6,407 |
| MINKER/STOUT/ROMAINE CREEK | 0745 | Remedial Action | 09/1996 | $0 | 28,758 | 5,306 |
| QUALITY PLATING | 071S | Remedial Action | 03/1998 | $1,550,000 | 2,480 | 360 |
| SHENANDOAH STABLES | 0740 | Remedial Action | 08/1996 | $0 | 2,781 | 534 |
| SYNTEX FACILITY | 0751 | Remedial Action | 09/1989 | $0 | 2,066 | 312 |
| TIMES BEACH SITE | 0762 | Remedial Action | 12/1996 | $0 | 15,761 | 2,874 |
| WELDON SPRING FORMER ARMY ORDN | 07BC | Remedial Action | 12/1996 | $450,000 | 57,134 | 8,040 |
| WESTLAKE LANDFILL | 0714 | Remedial Action | 06/1999 | ** | 65,820 | 8,629 |
| | | | | $2,000,000 | | |
| **State: NE** | | | | | | |
| BRUNO COOP & ASSOCIATED PROPER | 07DH | Remedial Action | 06/1999 | ** | | |
| SHERWOOD MEDICAL CO | 07BN | Remedial Action | 12/1998 | $325,000 | 16,815 | 2,822 |
| | | | | $325,000 | | |
| | | | | $8,013,000 | | |

***NOTE: Candidate sites are projections subject to change, deletion, or substitution due to resource/scheduling changes, project timing, and risk-based ranking as detailed on page 1 of this document.

# Candidates for Construction Completion by the End of Calendar Year 2000***

## Site Summary

| Site Name | SSID | Last Event | Last Event Start Date (MM/YYYY) | Estimated Funds Needed to Achieve Completion | Population within 4 Miles of Site | Children within 4 Miles of Site |
|---|---|---|---|---|---|---|
| **Region 08** | | | | | | |
| **State: CO** | | | | | | |
| CHEMICAL SALES CO | 0887 | Remedial Action | 09/1996 | $2,125,000 | 97,465 | 15,322 |
| DENVER RADIUM SITE | 0801 | Remedial Action | 03/1993 | $0 | 543,142 | 74,500 |
| EAGLE MINE | 0845 | Remedial Action | 06/1993 | ** | 240 | 29 |
| LOWRY LANDFILL | 0808 | Remedial Action | 09/1998 | $1,200,000 | 18,296 | 4,407 |
| SMELTERTOWN SITE | 08J6 | Removal | 12/1997 | $820,000 | | |
| URAVAN URANIUM PROJECT (UNION | 0846 | Remedial Action | 05/1987 | $0 | 12 | 2 |
| | | | | $4,145,000 | | |
| **State: MT** | | | | | | |
| EAST HELENA SITE | 0830 | Remedial Action | 06/1999 | ** | 5,834 | 1,160 |
| IDAHO POLE CO | 0862 | Remedial Action | 08/1996 | $200,000 | 23,045 | 2,515 |
| MONTANA POLE AND TREATING | 0869 | Remedial Action | 04/1996 | $200,000 | 27,282 | 3,725 |
| | | | | $400,000 | | |
| **State: SD** | | | | | | |
| ELLSWORTH AIR FORCE BASE | 08K1 | Remedial Action | 04/1997 | $0 | 12,458 | 3,226 |
| | | | | $0 | | |
| **State: UT** | | | | | | |
| MIDVALE SLAG | 0871 | Removal | 06/1999 | $23,850,000 | 163,717 | 34,674 |
| MONTICELLO RADIOACTIVE CONTAMI | 0873 | Remedial Action | 04/1996 | $205,000 | 1,083 | 218 |
| PETROCHEM RECYCLING CORP./EKOT | 08F3 | Remedial Action | 12/1997 | $1,981,140 | 60,381 | 10,150 |
| PORTLAND CEMENT (KILN DUST 2 & | 0838 | Remedial Action | 04/1995 | ** | 75,631 | 14,446 |
| SHARON STEEL CORP. (MIDVALE TA | 0840 | Remedial Action | 09/1995 | $0 | 144,453 | 30,561 |
| WASATCH CHEMICAL CO. (LOT 6) | 0872 | Remedial Action | 10/1994 | $0 | 173,124 | 26,420 |
| | | | | $26,036,140 | | |
| **State: WY** | | | | | | |
| BAXTER/UNION PACIFIC TIE TREAT | 0816 | Remedial Action | 09/1997 | $200,000 | 27,334 | 3,404 |
| | | | | $200,000 | | |
| | | | | $30,781,140 | | |

***NOTE: Candidate sites are projections subject to change, deletion, or substitution due to resource/scheduling changes, project timing, and risk-based ranking as detailed on page 1 of this document.

# Candidates for Construction Completion by the End of Calendar Year 2000***

## Site Summary

| Site Name | SSID | Last Event | Last Event Start Date (MM/YYYY) | Estimated Funds Needed to Achieve Completion | Population within 4 Miles of Site | Children within 4 Miles of Site |
|---|---|---|---|---|---|---|
| **Region 09** | | | | | | |
| **State: AZ** | | | | | | |
| APACHE POWDER CO | 09C6 | Remedial Action | 09/1999 | $500,000 | 577 | 86 |
| HASSAYAMPA LANDFILL | 09B8 | Remedial Action | 01/1996 | $0 | 680 | 113 |
| INDIAN BEND WASH AREA | 0920 | Remedial Action | 12/1998 | $17,810,000 | 228,521 | 26,019 |
| NINETEENTH AVENUE LANDFILL | 0905 | Remedial Action | 05/1995 | $0 | 122,473 | 25,145 |
| PHOENIX-GOODYEAR AIRPORT AREA | 0919 | Remedial Action | 06/1997 | $0 | 21,153 | 4,401 |
| WILLIAMS AIR FORCE BASE | 09Q1 | Remedial Action | 09/1993 | $750,000 | 11,427 | 1,951 |
| YUMA MARINE CORPS AIR STATION | 09K6 | Remedial Action | 06/1999 | $490,000 | 44,772 | 7,509 |
| | | | | $19,550,000 | | |
| **State: CA** | | | | | | |
| ATLAS ASBESTOS MINE | 0934 | Remedial Action | 06/1994 | $0 | 8 | 1 |
| BARSTOW MARINE CORPS LOGISTICS | 09Q4 | Remedial Action | 09/1999 | $980,000 | 24,110 | 4,542 |
| BROWN & BRYANT, INC. (ARVIN PL | 09H2 | Remedial Action | 09/1996 | ** | 9,982 | 2,233 |
| CAMP PENDLETON MARINE CORPS BA | 09Q3 | Remedial Action | 12/1998 | $1,100,000 | 289,652 | 48,630 |
| FAIRCHILD SEMICONDUCTOR CORP ( | 09M6 | Remedial Action | 12/1996 | $500,000 | 177,877 | 20,439 |
| FRONTIER FERTILIZER | 094R | Remedial Action | 06/1997 | $3,850,000 | | |
| GEORGE AIR FORCE BASE | 09Q7 | Remedial Action | 12/1999 | $405,000 | 16,587 | 4,168 |
| HEWLETT-PACKARD (620-640 PAGE | 09H9 | Remedial Action | 01/1995 | $0 | 159,941 | 17,948 |
| INDUSTRIAL WASTE PROCESSING | 09G9 | Removal | 06/1997 | ** | 107,215 | 15,242 |
| INTEL CORP. (MOUNTAIN VIEW PLA | 09M6 | Remedial Action | 12/1996 | $200,000 | 179,406 | 20,682 |
| J.H. BAXTER & CO | 0974 | Remedial Action | 12/1997 | $530,000 | 3,061 | 486 |
| JASCO CHEMICAL CORP | 09F6 | Remedial Action | 07/1996 | $200,000 | 155,303 | 17,604 |
| LAWRENCE LIVERMORE LABORATORY. | 0975 | Remedial Action | 08/1992 | $0 | 27,961 | 4,798 |
| LORENTZ BARREL & DRUM CO | 0989 | Remedial Action | 07/1996 | $300,000 | 330,425 | 55,940 |
| MARCH AIR FORCE BASE | 09N6 | Remedial Action | 06/1998 | $600,000 | 150,328 | 32,219 |
| MCCOLL | 0904 | Remedial Action | 03/1997 | $250,000 | 272,068 | 41,145 |
| MCCORMICK & BAXTER CREOSOTING | 091E | Remedial Action | 03/1999 | $31,600,000 | 135,195 | 25,111 |
| MODESTO GROUND WATER CONTAMINA | 09J4 | Remedial Action | 03/1998 | $2,100,000 | 203,586 | 37,480 |
| NATIONAL SEMICONDUCTOR CORP | 0991 | Remedial Action | 09/1991 | $0 | 213,357 | 25,448 |
| NEWMARK GROUND WATER CONTAMINA | 09J5 | Remedial Action | 06/1999 | $8,150,000 | 127,679 | 25,797 |
| PURITY OIL SALES, INC | 0921 | Remedial Action | 09/1997 | $200,000 | 64,759 | 15,089 |
| RALPH GRAY TRUCKING CO | 09X3 | Remedial Action | 06/1999 | ** | 312,485 | 46,166 |
| RAYTHEON CORP | 09M6 | Remedial Action | 12/1996 | $200,000 | 178,175 | 20,587 |
| RIVERBANK ARMY AMMUNITION PLAN | 09J7 | Remedial Action | 10/1995 | $0 | 35,450 | 6,242 |
| SACRAMENTO ARMY DEPOT | 0979 | Remedial Action | 06/1996 | $300,000 | 186,175 | 30,331 |
| SELMA TREATING CO | 0944 | Remedial Action | 03/1998 | $3,000,000 | 21,617 | 4,095 |
| SHARPE ARMY DEPOT | 0980 | Remedial Action | 12/1997 | $0 | 49,034 | 9,464 |
| SOUTH BAY ASBESTOS AREA | 0942 | Remedial Action | 02/1987 | $0 | 171,594 | 22,439 |
| T.H. AGRICULTURE & NUTRITION C | 0981 | Remedial Action | 09/1991 | $0 | 41,518 | 7,354 |

***NOTE: Candidate sites are projections subject to change, deletion, or substitution due to resource/scheduling changes, project timing, and risk-based ranking as detailed on page 1 of this document.

# Candidates for Construction Completion by the End of Calendar Year 2000***

## Site Summary

| Site Name | SSID | Last Event | Last Event Start Date (MM/YYYY) | Estimated Funds Needed to Achieve Completion | Population within 4 Miles of Site | Children within 4 Miles of Site |
|---|---|---|---|---|---|---|
| UNITED HECKATHORN CO | 09R3 | Remedial Action | 06/1997 | $0 | 107,225 | 18,375 |
| VALLEY WOOD PRESERVING, INC | 09K5 | Remedial Action | 12/1997 | $4,400,000 | 44,599 | 7,976 |
| WASTE DISPOSAL, INC | 09C1 | Remedial Action | 09/1998 | $3,400,000 | 289,223 | 48,616 |
| WESTERN PACIFIC RAILROAD CO | 09R4 | Remedial Action | 06/1998 | $140,000 | 29,554 | 5,410 |
| WESTINGHOUSE ELECTRIC CORP. (S | 0997 | Remedial Action | 06/1994 | $0 | 209,690 | 24,542 |
| | | | | $62,405,000 | | |
| **State: HI** | | | | | | |
| DEL MONTE CORP. (OAHU PLANTATI | 09AG | Remedial Action | 09/1999 | ** | | |
| SCHOFIELD BARRACKS | 09P9 | Remedial Action | 12/1998 | $0 | 76,878 | 14,537 |
| | | | | $0 | | |
| | | | | $81,955,000 | | |

***NOTE: Candidate sites are projections subject to change, deletion, or substitution due to resource/scheduling changes, project timing, and risk-based ranking as detailed on page 1 of this document.

# Candidates for Construction Completion by the End of Calendar Year 2000***

## Site Summary

| Site Name | SSID | Last Event | Last Event Start Date (MM/YYYY) | Estimated Funds Needed to Achieve Completion | Population within 4 Miles of Site | Children within 4 Miles of Site |
|---|---|---|---|---|---|---|
| **Region 10** | | | | | | |
| **State: AK** | | | | | | |
| EIELSON AIR FORCE BASE | 10C8 | Remedial Action | 06/1997 | $0 | 5,314 | 1,493 |
| ELMENDORF AIR FORCE BASE | 10C9 | Remedial Action | 12/1997 | $300,000 | 80,761 | 15,015 |
| STANDARD STEEL&METALS SALVAGE | 1078 | Remedial Action | 03/1998 | $200,000 | 48,404 | 8,185 |
| | | | | $500,000 | | |
| **State: ID** | | | | | | |
| KERR-MCGEE CHEMICAL CORP. (SOD | 10D3 | Remedial Action | 06/1997 | $0 | 149 | 31 |
| MONSANTO CHEMICAL CO. (SODA SP | 10D4 | Remedial Action | 03/1998 | ** | 299 | 53 |
| MOUNTAIN HOME AIR FORCE BASE | 1088 | Remedial Action | 06/1996 | $0 | 6,209 | 1,719 |
| PACIFIC HIDE & FUR RECYCLING C | 1015 | Remedial Action | 08/1996 | $200,000 | 40,341 | 7,452 |
| | | | | $200,000 | | |
| **State: OR** | | | | | | |
| GOULD, INC | 1023 | Remedial Action | 03/1992 | $150,000 | 46,848 | 7,119 |
| TELEDYNE WAH CHANG | 1019 | Remedial Action | 09/1997 | $200,000 | 30,647 | 4,694 |
| UMATILLA ARMY DEPOT (LAGOONS) | 1048 | Remedial Action | 06/1996 | $0 | 3,350 | 530 |
| UNION PACIFIC RAILROAD TIE TRE | 10E9 | Remedial Action | 09/1997 | $0 | 13,496 | 1,908 |
| | | | | $350,000 | | |
| **State: WA** | | | | | | |
| BANGOR NAVAL SUBMARINE BASE | 10E3 | Remedial Action | 06/1996 | $150,000 | 16,281 | 3,024 |
| CENTRALIA MUNICIPAL LANDFILL | 10C2 | Remedial Action | 09/1998 | $0 | 21,139 | 3,279 |
| COLBERT LANDFILL | 1001 | Remedial Action | 08/1989 | $0 | 3,650 | 650 |
| COMMENCEMENT BAY, SOUTH TACOMA | 1014 | Remedial Action | 03/1998 | $200,000 | 247,340 | 38,996 |
| FAIRCHILD AIR FORCE BASE (4 WA | 10D1 | Remedial Action | 06/1999 | $300,000 | 11,792 | 2,363 |
| FORT LEWIS LOGISTICS CENTER | 1074 | Remedial Action | 09/1999 | $300,000 | 50,402 | 9,417 |
| FRONTIER HARD CHROME, INC. | 1027 | Remedial Action | 03/1998 | $2,600,000 | 78,894 | 11,853 |
| GENERAL ELECTRIC CO. (SPOKANE | 10E1 | Remedial Action | 12/1996 | $0 | 73,681 | 11,792 |
| GREENACRES LANDFILL | 1059 | Remedial Action | 12/1996 | $0 | 13,373 | 2,268 |
| HIDDEN VALLEY LANDFILL (THUN F | 1085 | Remedial Action | 06/1997 | $0 | 31,986 | 6,102 |
| KAISER ALUMINUM MEAD WORKS | 1018 | | | $0 | 55,359 | 8,472 |
| MIDWAY LANDFILL | 1053 | | | $0 | 85,301 | 12,302 |
| NAVAL AIR STATION, WHIDBEY ISL | 1077 | Remedial Action | 08/1996 | $0 | 23,688 | 4,620 |
| NAVAL UNDERSEA WARFARE STATION | 1076 | Remedial Action | 06/1999 | $450,000 | 23,283 | 3,736 |
| PORT HADLOCK DETACHMENT (USNAV | 1075 | Remedial Action | 06/1996 | $0 | | |
| QUEEN CITY FARMS | 1029 | Remedial Action | 07/1995 | $0 | 16,918 | 2,494 |

***NOTE: Candidate sites are projections subject to change, deletion, or substitution due to resource/scheduling changes, project timing, and risk-based ranking as detailed on page 1 of this document.

# Candidates for Construction Completion by the End of Calendar Year 2000***

## Site Summary

| Site Name | SSID | Last Event | Last Event Start Date (MM/YYYY) | Estimated Funds Needed to Achieve Completion | Population within 4 Miles of Site | Children within 4 Miles of Site |
|---|---|---|---|---|---|---|
| SPOKANE JUNKYARD/ASSOCIATED PR | 10A5 | Removal | 09/1996 | ** | | |
| | | | | $4,000,000 | | |
| | | | | $5,050,000 | | |
| | | | | **$719,550,330** | | |
| Sites with a Final Remedy Decision Pending + | | | | $565,000,000 | | |
| Infrastructure Resources (e.g. Personnel) | | | | $16,000,000 | | |
| GRAND TOTAL (Total Candidate Sites= 516 NPL Sites) | | | | **$1,300,550,330** | | |

+ - This resource level represents funds required to complete construction at sites with a final remedy decision pending. Included in this funding requirement are resources for other cleanup projects at these same sites, other operable units.

***NOTE: Candidate sites are projections subject to change, deletion, or substitution due to resource/scheduling changes, project timing, and risk-based ranking as detailed on page 1 of this document.

Ms. BROWNER. We have given some of those lists to your staff already. We have given to you a list of 600 candidates. We can work with you on that list.

Senator BOND. Yes; we have a broad universe of science. We want the specifics.

Ms. BROWNER. Right. We can do that.

Senator BOND. And we will work with you to get that and share that with the committee.

Ms. BROWNER. Good.

EPA/STATE RELATIONSHIPS

Senator BOND. Let me turn to your relationship with the States. As you will recall, we have discussed here before the National Academy of Public Administration, 2 years ago, recommended that EPA turn more responsibility over to the States. We are hearing from the States that despite your claims to wanting to develop a partnership, the efforts to foster the partnership are disintegrating. A recent Inside EPA article states,

> State officials are becoming increasingly concerned that Hansen and Browner are not living up to their rhetoric regarding a new partnership between the Agency and the States. They see a trend of EPA walking away from the partnership process.

Why is there an appearance that the relationship with the States is collapsing? Is EPA committed to working with the States and devolving the responsibility?

Ms. BROWNER. Absolutely, we are committed to working with the States. I think one of the earlier quotes you referenced talked about how we had begun this in the last 4 years. This is not small. This is not easy. No two States are the same. No two State legislatures are the same. No two State Governors feel the same about these issues.

We look to the States to manage a variety of Federal responsibilities on a day-to-day basis. In most instances, it works quite successfully. There will inevitably be times when there are challenges in individual States. We have found that if we can sit down and talk through these challenges, we can reach a resolution. I will give you just one recent example.

The State of Texas is not a State with which we are expected to be able to find resolution. The State passed a piece of legislation that raised concerns in our minds and in our lawyers' minds, about whether or not they could adequately fulfill their responsibilities under Federal statutes, responsibilities we had delegated to them.

We had a lot of meetings. Fred Hansen had meetings. Steve Herman had meetings. Approximately, 2 weeks ago, we agreed that there is a way to allow them to meet the needs of their State legislation, but to honor the Federal statutes.

Similarly, in Utah.

Senator BOND. May I interrupt just to ask one last question on this round. Mr. Hansen abruptly pulled back last month a draft agreement to establish a process for reviewing and improving innovative regulatory reform projects conceived by the States. This brought a lot of surprise and disappointment to the State officials. They were very much concerned and upset.

Why did the process break down? What specific problems did you have with the draft agreement? And where do you see the possibility for this going forward?

Mr. HANSEN. Mr. Chairman, for the record, I am Fred Hansen, Deputy Administrator.

It was with great reluctance that I took the step to pull that draft agreement back. But, upon review, what was at issue is that the States and we both agree on the need to be able to move ahead with good, innovative approaches. The language that was included in the draft agreement went well beyond what I think both of us felt were the types of projects that would be brought forward under that agreement. As a result, it raised very legitimate concerns in other people's minds about whether or not that agreement was too broad.

We and the States have agreed to be able to, in fact, redraft an agreement. The Administrator and I met with the ECOS, the Environmental Commissioners of the States, governing body and agreed to, in fact, be able to relaunch that effort. Our staffs have been meeting and things are progressing. I cannot tell you today that it has been agreed to, but there has been very real progress made in making sure that what was the intent of the States and what was our intent can be captured in such an agreement.

Senator BOND. Thank you very much, Mr. Hansen.

Senator Boxer, if you do not mind, I would like to turn now to Senator Craig, since he missed out on that last round.

Senator Craig, welcome.

WIPP

Senator CRAIG. Mr. Chairman, thank you very much.

Administrator Browner, let me thank you for coming before us this morning. I apologize for being in and out and not hearing all of your testimony or comments. I will direct my questions specific ally to a couple of activities that EPA is involved in at the moment that are giving us considerable consternation.

Specific to my State of Idaho, but also very true across the country, is the concern for our ability to deal with transuranic waste. Last year, the Senate passed a Sense of the Senate, in a very strong bipartisan vote, to expedite your activities in the overall oversight and certification of the WIPP facility in Carlsbad, NM. Time is important. We gave you authority and we gave you time, and you are not meeting those schedules.

Now, let me comment first, then you will have ample time to comment. The Sense of the Senate suggested that you be able to open it by November of this year. Now you have asked for an extension of at least 1 year, arguing that you need more information. In fact, you have gone back to DOE, requesting more information. The Sense of the Senate, in essence, suggested that you run parallel tracks with your certificate of completeness. Why?

To get the time sequence down, so that we could cope with and respond to a national need. In fact, we gave EPA authority in this area largely to solve some problems. I helped move the legislation, along with Senator Domenici, that allowed you greater flexibility to deal with your role in that area. In fact, it was new authority.

My simple question to you is, why the extension? Why the request for more time? Why are you suggesting that it will be now May 6, or somewhere near that, of 1998, instead of the Sense of the Senate direction that you open it by November of this year by completing your work using parallel tracks? Can you respond to that with detail?

Ms. BROWNER. We will be more than happy to respond with all of the different model requests and model runs that we are awaiting from DOE in writing. But, to step back and speak broadly, we are in dialog with DOE about the information we need to make the determination. I think we have explained that from when DOE completes its work, it would take us approximately 1 year to complete our work.

Senator CRAIG. That is why the Congress reacted last year by saying parallel the tracks so that it would not take 1 year.

Ms. BROWNER. Yes.

TRANSURANIC WASTE

Senator CRAIG. Because we have a Federal court order requiring the transuranic waste begin to move in a timely fashion; therefore, we need to expedite with certainty.

Ms. BROWNER. Yes; we have been attempting to move as much as possible in parallel tracks. We are still awaiting some information from the Department of Energy. We have no reason to think they are not going to be forthcoming. I want to suggest there is a problem. We are in dialog with one another. Secretary Pẽna and I have spoken recently about this. I think we are going to meet later this week or next week again about this. Once we have that, we will do an analysis and go through a public notice and comment. At which point, we will then evaluate the comments and come to a conclusion.

We share your desire to get this done expeditiously. We are doing it quicker than I think anyone imagined we would. However, there is this issue of more information.

If you would like, we will explain the modeling.

Senator CRAIG. No; I understand the modeling. In fact, I know more about this issue than I would like to know. What I am concerned about is timely action.

Ms. BROWNER. Yes.

Senator CRAIG. Because many of us believe what you are doing is duplicative of what has already been done. But we understand the political waltz that has to go on here to satisfy certain requirements. We also understand the criticality of public appreciation for safety and for completeness. I was of the latter, thinking that EPA did not necessarily have to have a role, but we played that game out with you all. We have given you that authority. We just cannot live with an extension of time that takes us well into 1998, with no certainty that we will even get there at that point.

This facility, by most scientists' and engineers' knowledge, has been ready to open for several years. And it is a phenomenally costly environment we are dealing with.

Ms. BROWNER. You have given us a responsibility to review this. We do take that seriously. We are doing it expeditiously. But in

order to fulfill the responsibility of review, there are certain steps we will have to follow.

Senator CRAIG. Yes.

Ms. BROWNER. We are doing that as quickly as possible.

Senator CRAIG. Have you, then, changed the time schedule, or do you feel you can stay on track when you are announcing now, in 1998?

Ms. BROWNER. We believe we will be able to make what is called a completeness determination in the next couple of months. From that point, it would take us no more than 1 year to give you the certification.

Senator CRAIG. Completeness by when, May 1998?

Ms. BROWNER. No; this is a completeness for what DOE has to provide to us. A completeness determination will be done by the end of May.

Senator CRAIG. Of this year?

Ms. BROWNER. Yes.

Senator CRAIG. 1997?

Ms. BROWNER. Yes.

Senator CRAIG. And then another year following that, into 1998?

Ms. BROWNER. At the most, it will take us 1 year.

Senator CRAIG. At the most. OK.

Ms. BROWNER. We are required to go through a public notice and comment period. The comment period will be 120 days.

Senator CRAIG. And it was with that sensitivity, Administrator Browner, that this Congress acted 1 year ago, suggesting that you do parallel tracking to speed up the time.

Ms. BROWNER. We are doing that.

Senator CRAIG. You are doing that?

Ms. BROWNER. As DOE makes information available, we analyze it. So we are moving parallel.

Senator CRAIG. Well, we are going to two-track you on this and stay with you on it. My Governor has just written to the President. DOE is under a Federal court order to respond in a timely fashion.

Ms. BROWNER. Yes; we are aware of that.

Senator CRAIG. We expect them to comply. If they do not comply, I would not be surprised if my State would once again have to shut its borders to the movement of naval spent fuel. And that brings the ships at sea to a halt. I do not think you need that as your burden. I do not want that to happen. But my State is very insistent. They have waited long enough for this repository to open so that we can start a major movement of transuranic waste to a safe storage facility.

Mr. Chairman, I am out of time?

Senator BOND. Yes.

Senator CRAIG. Thank you.

Senator BOND. I think Senator Boxer. said she had just a few minutes. So let me turn to Senator Boxer..

Senator BOXER. Yes; I have 3 minutes. I will be glad to yield.

Senator CRAIG. No; why don't you go ahead, Senator, and then I will come back with one more question.

METHYLBROMIDE

Senator BOND. I will come back to you, Senator.

Senator BOXER. Five minutes ago I had to be somewhere, but I will be fast.

Mr. Chairman, there is a river on the Mexico-California border called New River. It is one of the most polluted in the entire world. And I know you smiled when you thought about going up to Vermont to see the beautiful lake. I would not even want to take you down there. I hope that we can make some progress on this cleanup. I went down there to look at it, and it just bubbles up filth and dirt and foam and chemicals. And the good people who go in there to try and clean it up or to do any sort of river work have to wear astronaut's gear. And it is extraordinary.

I went down there. I was promised EPA would clean it up. And they have begun to do that. I just want to make sure that you are still committed to this cleanup and that this year we will see some more cleanup done there.

Ms. BROWNER. Absolutely.

Senator BOXER. Excellent. And I would hope that I could go back there and see a little less filth. Because it was an experience you could never, ever, ever forget. So I am going to take you up on that and monitor that.

In terms of methylbromide and the ozone layer and all the problems, because I represent such a diverse State, we have so much agriculture. There are countries that will not take produce that has not had methylbromide sprayed on it. My question is, how are we doing in the search for substitutes? Because there is no way anybody that I know of is going to do away with one product the world is still using, and then we cannot ship our produce anywhere. So how are we doing? Do we have a commitment to search for substitutes to methylbromide?

Ms. BROWNER. Yes; and there have been dollars made available through the EPA budget to form groups out in the field that are looking at how to manage in terms of moving away from the use of methylbromide. The Department of Agriculture has had almost $55 million over the course of a 3- or 4-year period, which looks at alternatives in doing its work.

We are still working in this area, and appreciate all of the cooperation we are receiving both at the State and local level and from the farming organizations across the country.

Senator BOXER. So what is your commitment to finding a substitute?

Ms. BROWNER. We all want to find a substitute. The work is underway. We are working diligently. The Department of Agriculture industry is working diligently to find a substitute. Everyone wants to find a substitute.

Senator BOXER. I am just saying that unless we do that, we are not going to phase out methylbromide until we have a substitute. That is my own particular view. I just think that is a prevailing view, period. Because there is no point in it, when you have got everybody else using it, unless we have a substitute that works. It is a real crisis situation for our farmers.

Ms. BROWNER. I do not think anyone, scientists, the scientific community or otherwise is suggesting that there will be one alternative to methylbromide in all of its many uses. There has been some progress made in the varieties of pest control tools which can

manage pests currently controlled with methylbromide. It does take a series of steps. But work will continue in finding a substitute. There is a tremendous amount going on there.

SOUTH LAKE TAHOE

Senator BOXER. Mr. Chairman, last point. I look forward to working with you on my South Lake Tahoe export pipeline. I know there were reasons why we could not resolve that problem. And members of Congress and I are very concerned. If we want to avoid a catastrophic bill and serious harm to Lake Tahoe, I hope we can work together this year. So I look forward to working with you on what you think is the right approach. And I want to thank you so much for your courtesy.

Senator BOND. Senator Boxer., let me emphasize that the concerns that you bring are very important concerns. We look forward to working with you and the EPA to address the New River concern, methylbromide, and South Lake Tahoe. These are all very important issues, and very valuable members of this committee bring to our attention. I think Senator Leahy has already achieved success. Some of the rest of us have farther to go.

And now, turning back to another issue that is very important to this committee, as well as to the distinguished Senator from Idaho, Senator Craig.

WIPP REVIEW

Senator CRAIG. Thank you very much, Mr. Chairman.

Administrator Browner, I just have a couple of additional questions that are reasonably short. But let me suggest to you that May 1998 as a time line that gets talked about for the opening of the WIPP facility in Carlsbad is an unacceptable time line for this Senator and for a good many members of Congress, and we would much prefer you try to find a date earlier than that.

Now, we understand the process you have to go through, and that is why the Congress acted with the urgency that it did 1 year ago—knowing that we did not want to shortcut the process, we just wanted to engage you along the way at a quicker time than would otherwise play out if there was not an expression of urgency as it relates to this environmental concern.

Ms. BROWNER. Senator, if I might, for the record, provide for the record, a list of what we have been doing on the parallel track. That might be helpful.

Senator CRAIG. I would appreciate that.

[The information follows:]

WIPP: EPA ACTIVITY ON SITE EVALUATION

The Waste Isolation Pilot Plant (WIPP) Land Withdrawal Act (LWA), as amended, requires that EPA make a determination as to whether WIPP meets the Radioactive Waste Disposal Regulations at 40 CFR Part 191. The LWA requires that EPA make this determination by rulemaking under Section 553 of the Administrative Procedures Act (APA). This requirement imposes certain procedural and substantive obligations upon the Agency in making this determination. EPA is currently proceeding with rulemaking activities in accordance with the provisions of the WIPP Compliance Criteria at 40 CFR Part 194.

EPA is taking every step to facilitate the certification decision with the Department of Energy (DOE) since the original application was submitted on October 29, 1996. Almost weekly over the past six months, the Agency has been sending people

to New Mexico to work with DOE and their science advisor, Sandia National Laboratory. EPA is reviewing their extensive records to ensure that the Agency understands what was done, and that DOE understands our concerns and information needs required to fulfill the regulations.

EPA has completed its review of the original application which DOE submitted on October 29, 1996. EPA has sent DOE three requests for additional information to fulfill the regulatory requirements of 40 CFR Part 194. The first letter, sent on December 19, 1996, identified completeness and technical sufficiency issues and identified required information that was not included; the second letter, sent on February 18, 1997, provided clarification for resolving an issue raised in the December 19, 1996 letter regarding Sandia National Laboratory's record center; and the third letter, sent on March 19, 1997, identified technical sufficiency issues requiring additional information to fulfill the regulatory requirements. EPA believes that the information requested in these letters is absolutely essential for the Agency to be able to make a certification determination that withstands the scrutiny of a reviewing court under the Administrative Procedures Act (APA).

While DOE was fulfilling the December 19, 1996 request, the Agency continued its extensive review of the application. EPA met with key stakeholders to provide them an opportunity to inform the Agency of their comments early in the process, and held a series of public hearings to solicit additional public comment. Since that letter was sent, DOE has been periodically submitting responses to the requests and the Agency has been reviewing those as quickly as possible once received.

Following the close of EPA's public comment period on DOE's application on March 17, 1997, and while DOE is responding to the remaining information requests, the Agency is, in parallel, drafting sections of its proposed certification rulemaking where we have sufficient information. The Agency will continue to draft proposed rule sections as DOE submits information to fulfill the requests in the above mentioned letters.

In addition, the Agency is reducing the complexity and amount of time required for internal Agency review of the certification decision. EPA will propose to the Office of Management and Budget to expedite the time required for interagency review required under Executive Order 12866.

Accomplishing all this work in parallel will allow the Agency to publish a proposed rule 2½ months after DOE submits all the information required to fulfill the requirements of 40 CFR 194 (as identified in the March 19, 1997 letter from EPA to DOE). Following proposal, a four month public comment period will begin as required by 40 CFR 194.62. Upon completion of the public comment period, EPA will need 3½ months to accomplish an expedited rulemaking process including responding to public comments, completing the technical support, drafting the final rule and completing the intra- and interagency review [see schedule below]. In total, it will take the Agency 10 months to complete the final certification decision once DOE has submitted the required information.

*EPA Schedule for a WIPP Certification Decision*

| | *Days* |
|---|---|
| EPA Analysis of DOE Final Submission, Complete Proposal and Technical Support | 44 |
| Expedited Intra/Interagency Review Process | 31 |
| Total | 75 |

EPA will propose the certification decision 2½ months after the last piece of information required to fulfill the requests in the March 19, 1997 letter is received.

| | *Days* |
|---|---|
| Public Comment Period | 120 |
| Respond to Comments, Finalize Technical Support Documents and Complete Final Rule | 74 |
| Expedited Intra/Interagency Review Process | 31 |
| Total | 225 |

EPA will complete final rule on certification decision 7½ months after the proposed rule, which is 10 months after DOE submits the last piece of information to fulfill the requests in the March 19, 1997 letter.

NATIONAL MINING STRATEGY

Senator CRAIG. I think the citizens of my State would greatly appreciate that.

Could you please explain to me what your Agency is doing in the area of developing a national mining strategy? Now, I say this with this concern—because I know that your Agency is involved. What is your authority for this work? And what have been your expenditures to date in this area? And the third question would be, what is your budget request for fiscal year 1998 as it relates to your participation in a national mining strategy of this administration?

Ms. BROWNER. As you pointed out, there are many other Federal agencies and departments that have a role to play in mining activities in the United States. Our focus is largely threefold. First, we look at the impacts on water quality, second, impacts on air quality issues, and finally, impacts on waste issues.

If I might, with the leave of the chairman, ask Bob Perciasepe, who is the Assistant Administrator for Water, to speak to what we are doing in this area. He has been taking the lead within EPA on the interagency work.

Senator BOND. We welcome Mr. Perciasepe.

Mr. PERCIASEPE. Thank you. For the record, I am Bob Perciasepe, Assistant Administrator, Office of Water.

Senator CRAIG. You probably better come up, Bob, and use the microphone.

Mr. PERCIASEPE. Yes; I am coming up so that they can hear me.

Senator, as the Administrator said, EPA has a number of programs which impact the mining industry, Superfund, RCRA, the Clean Water Act, and the Clean Air Act. We are working inside the Agency to try to make sure that those efforts are coordinated. We are also reaching out to the mining industry, to the States and to others as to how a strategy might be pulled together.

I would say that our expenditures are just nominal, ongoing staff work to come up with a strategy. We have not finalized the strategy yet. We had a meeting just a couple of weeks ago, with a couple of the assistant administrators, to talk through what the staff has found. We have shared their findings with outside stakeholders.

What the long-term consequences of a strategy would be inside EPA's coordination, and then with the other agencies has yet to be determined. There is not a specific budget request in 1998, other than our ongoing work, which we have many programs that impact mining. Thus, we think it is a good idea to try to coordinate our efforts and to do it with the industry.

Senator CRAIG. I appreciate the need to coordinate. I believe mining is an important industry of our country, but it has to be done in an environmentally sound and safe way. We are on the verge of overkill—not in the cleanliness—current rule and regulation is doing quite well there. The problem is that we have mines operating in Idaho that now have as many as 10 Federal and State agencies overviewing them. They spend all of their time with Federal or State agencies and no time underground. And I know of three State agencies, so that leaves five to six Federal agencies.

We really do not need that kind of excessiveness. And a coordinated strategy that allows certain agencies to do that, and has the capability of playing dual roles, as long as there is reasonable oversight, makes good sense. And I am less critical of your expenditure and more interested in the work you get done to get a strategy, so that we can move away from this kind of regulatory overburden

that is very close to being excessive. We have a tremendous exodus from our shores right now of the industry for a lot of reasons. This happens to be one of the reasons.

Now, that is perfectly satisfactory to some people. But when I see thousands of high-paying jobs leaving our country and our mineral and metals base leaving our country, and Government cannot get its act together, that is an additional concern that I think we have got to deal with. So I am concerned and I am very interested in the dollars and cents you spend, and the fact is that you have a targeted effort at getting the job done.

Ms. BROWNER. Senator, if we might, we would be more than happy to keep you informed on both the work we are doing internally and across the administration, in the coordinated strategy. However, I think equally important is the work across the administration. The administration recognizes that you have a variety of Federal agencies and departments that get a piece of this, in looking at it more broadly. We would be more than happy to keep you informed as we proceed.

[The information follows:]

MINING STRATEGY: STATUS

Addressing the environmental impacts of mining activities requires the coordination of a number of statutory authorities under which EPA operates, as well as extensive coordination with other Federal agencies with jurisdiction in the mining area. The principal environmental statutes that EPA has used to regulate releases to the environment as a consequence of mining over the last decade are the Clean Water Act (CWA) and the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). The Resource Conservation and Recovery Act (RCRA) has been used by the Agency to examine the environmental impacts of mining. In addition, EPA's role in the National Environmental Policy Act (NEPA) process has been important in mine site evaluation and planning.

In an effort to better address the statutory and regulatory complexities involved in mining activities, EPA's former Deputy Administrator, Robert Sussman, directed EPA's Office of Water in 1994 to lead a multi-program, cross-organizational workgroup to draft an Agency-wide mining framework. The workgroup was comprised of staff from EPA's Regional offices, the Office of General Counsel (OGC), the Office of Solid Waste and Emergency Response (OSWER), the Office of Enforcement Compliance and Assurance (OECA), and other affected programs.

Currently in a Final Draft Form, the Hardrock Mining Framework identifies recommendations that will help EPA implement a multi-media, multi-statute approach to dealing with the environmental concerns posed by hardrock mining. The Framework focuses on understanding and improving the use of existing EPA authorities with a clear recognition of the role of other stakeholders. Building effective working relationships with other mining stakeholders is a key element of EPA's efforts to improve the effectiveness of its own programs. In developing the Framework, EPA solicited input from a number of mining stakeholders, including other Federal agencies, States, Tribes, local government, industry, and environmental groups.

While the Agency continues to work to improve coordination within the Agency, EPA also recognizes the importance of working in conjunction with other Federal and State agencies to address the environmental concerns posed by hardrock mining. One example where interagency coordination is presently taking place is an effort to develop an interagency strategy to address abandoned mine sites on federally managed lands. The workgroup is comprised of staff from EPA, Department of Interior, and Department of Agriculture. The Agency agrees that any future efforts will require a similar level of coordination among affected parties.

NEW LEGISLATION IMPLEMENTATION

Senator CRAIG. Mr. Chairman, one last comment to the Administrator, because I think she understands the urgency of it. But I want her to know that there are a lot of Senators who are watching, and appreciate the urgency of it.

As you know, last year, with the Food Quality Protection Act, we, in essence, abolished the Delaney clause and, at the same time, recognize that there were new standards that needed to be set for the protection of food, food quality, crop production, and all of that. I will be submitting a number of questions for the record for you to respond to, so that we can keep this thing on track. What we do not need is 2 or 3 years of reg writing, and keeping an industry in limbo.

It took us two decades here to get to a proper handling of the Delaney clause. We think we have done it. And now we need a new mode of operation for what I think we all recognize is probably one of the most important industries of our country to produce a quality food product of the kind that it does, and to be able to do that in a competitive environment. I think Senator Boxer.'s references are a part of all of that concern that we get it done and that we have scientifically acceptable tolerance levels for crop production, and that we are able to respond to it.

So, Mr. Chairman, I will be submitting some questions to the record that we will send to the Administrator.

Senator BOND. Thank you very much, Senator Craig. We will keep the record open for those questions. I will have a number of my own.

Madam Administrator, do you have a response?

Ms. BROWNER. Yea; just one just very briefly. I might call the attention of the Senator to the fact that in the budget request before you, we are asking for additional dollars to honor the implementation activities that we think are necessary to keep on track and stay on schedule with both the Food Quality Act and drinking water. In fact, we ask that we be allowed to spend $35 million just for the implementation of the new Food Quality Act. That does not speak to the other components of our pesticide program, only to the implementation. Similarly, we ask that we be allowed to spend $48 million in drinking water.

In both instances, these are dramatic increases off of the base from the prior year.

Senator CRAIG. Thank you.

Ms. BROWNER. As far as I know, we have not missed any deadlines and any statutory deadlines under either of these statutes. We are on time.

Senator CRAIG. And we do not want you to.

Ms. BROWNER. Neither do we. I would just point out to you that we are not asking for new dollars. We have redirected them internally.

Senator CRAIG. Yes; I understand that.

Ms. BROWNER. We have looked at things that we do not think we should be doing anymore, and we have moved them over so we can honor the commitments that we have all made under these statutes.

Senator CRAIG. Thank you.

Senator BROWNER. Thank you, Mr. Chairman.

NAAQS: STATE GRANT REQUEST

Senator BOND. Thank you very much, Madam Administrator.

Let me turn now to some other areas. We talked earlier about the proposed standards for ozone and PM fine particulates, and you talked about the importance of this. There is that one study, which has been discussed, that suggests averting 20,000 premature mortalities. I am concerned that your budget does not reflect the commitment to carrying out the air quality standards. There is only a 3-percent increase for grants to the States to administer the air program.

We have talked about the importance of the States in this process. And if there is to be a major task of the magnitude envisioned by these new standards, do you think that an inflationary-only increase in the air grants to the States would be adequate to implement it?

Ms. BROWNER. In fact, in terms of the money to the States for their air work, there are some redirects. Thus, in the case of fine particles, the recognition that we will all need to install a fine monitoring network we do provide for an increase in funding. I believe, we provide $11.2 million to the States under the statute. We provide a match of approximately $7 million. We can detail for you how we take into account what may be required of the States—when we reach a final decision on the proposed standards.

Senator BOND. Well, some of the moneys that you are reprogramming, are they not for programs that are still required under the Clean Air Act? I mean if you are talking about shifting some money around to deal with perhaps the particulate matter standards, as I understand it, you are talking about taking away from other programs.

Ms. BROWNER. Here is an example of where, quite frankly, we have made some progress and we do not need to continue the same level of funding. It is the toxic air emissions and the MACT standard work. We are recommending a redirection in excess of $1 million. We are on target to do the work we are supposed to do under the Clean Air Act. We have sort of caught up with the backlog. Thus, we are recommending to Congress a redirection from that program to other higher-priority areas.

CWSRF

Senator BOND. Turning now to the clean water State revolving funds, the only major disinvestment EPA is proposing for fiscal year 1998 is the clean water State revolving funds. I spoke with Mr. Perciasepe at hearings last year. I commend him on the progress we are making. And I expressed my interest in seeing that we move forward on this program. It works effectively. There is a tremendous need for the dollars. EPA's own estimate of the cost of needed wastewater treatment construction is about $140 billion nationwide.

Could you tell me why EPA chose to cut the program by 20 percent, $275 million? And can you put to rest the rumors that the program was cut as an offset to the increase in Superfund?

Ms. BROWNER. It was not cut as an offset to anything. Our commitment has been to see this very, very successful State revolving fund revolve at $2 billion. That was the President's commitment when he took office. It is in excess of what President Bush commit-

ted to in his work on clean water, because we think there should be a Federal cost share in these programs.

In fiscal year 1998, the amount of money that will be in the clean water funds across the country will be $25 billion. This program is reaching a level of maturity, and we should all be proud of that. Money has been lent out. It is being repaid. The bonds have been leveraged. More money is coming in. The State matches are in. Thus, the size of these funds has grown dramatically. With the budget request we make, we are on track, to honor the revolving level at $2 billion, and to see the very important projects for which this money goes be successfully completed.

Senator BOND. Well, that does not answer my point. Because we know there—as I said, there is $140 billion worth of needs. I think we were looking at a target of—was it $10 billion, I think, that we—excuse me, I was thinking of the drinking water fund.

Ms. BROWNER. Yes.

Senator BOND. But there are 140 billion dollars' worth of needs out there, and your outyear projections shows the funding going along, being cut and then going back up in fiscal year 1999. Why does that make sense? I mean, granted, there is a lot of money in the pipeline. There is supposed to be a lot of money in the pipeline. It is supposed to be paid back, because there is such a need. Why the dip in the funding and then reinstatement of the funding request later?

Ms. BROWNER. What you are seeing is a growth in the total dollar amounts available in each State to be loaned for the construction. The percentage of funds made up from the Federal appropriation is decreasing. This is because other things are coming into play. The size of the fund is growing, but you do have State matches. You have the leveraged bonds, which have grown dramatically. We would be more than happy to provide information for the record, to show you that given what the States have available to do the job, there is a growth in the dollars out there.

It is a success story that we should all be proud of. It is not only a success story from the Federal Government's point of view. The States have done an important piece of this. In addition, local governments are, in fact, repaying the fund so other local governments can now get a loan.

[The information follows:]

CW–SRF FISCAL YEAR 1998 FUNDING

The attached charts show: (1) the projected cumulative capitalization of the Clean Water SRF through fiscal year 1998 and associated loan activity; (2) the relative contribution of the various components of SRF capitalization for 1990, 1992, and 1996; and (3) projected cumulative financial assistance provided by the Clean Water SRF through the year 2026 (in constant 1996 dollars).

SRF CUMULATIVE CAPITALIZATION AND LOAN ACTIVITY—REPORT YEAR ENDING JUNE 30

[In billion of dollars]

| Fiscal year | Cumulative | |
|---|---|---|
| | Capitalization | Loans |
| 1992 | 9 | 7 |
| 1993 | 11 | 8 |

SRF CUMULATIVE CAPITALIZATION AND LOAN ACTIVITY—REPORT YEAR ENDING JUNE 30—Continued

[In billion of dollars]

| Fiscal year | Cumulative | |
|---|---|---|
| | Capitalization | Loans |
| 1994 | 15 | 11 |
| 1995 | 19 | 14 |
| 1996 | 22 | 17 |
| 1997 [1] | 23 | 20 |
| 1998 [1] | 25 | 23 |

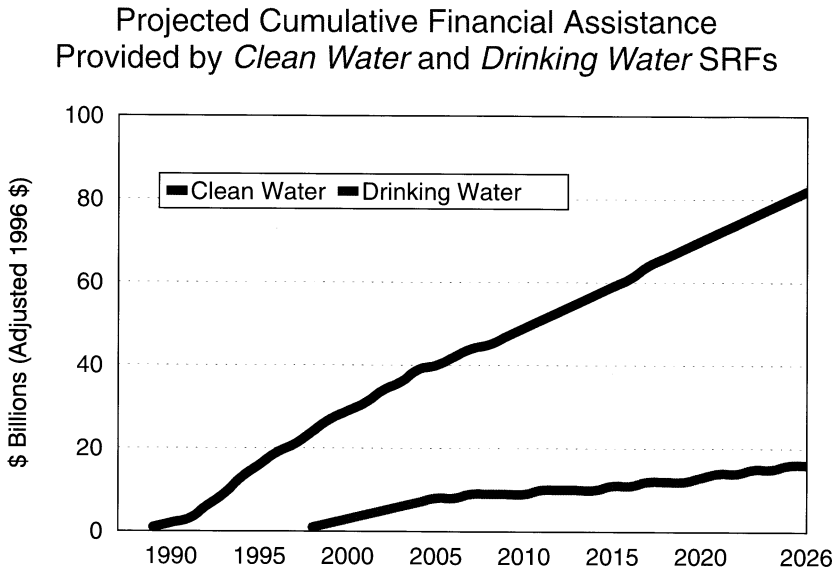
[1] Projected

Note: Dollars not adjusted for inflation

SRF CAPTILIZATION—REPORTING YEAR ENDING JUNE 30

[Percentage of Capitalization]

| | Fiscal year | | |
|---|---|---|---|
| | 1990 | 1992 | 1996 |
| Interest earnings | ..... | 1 | 4 |
| Loan principal repayments | ..... | 1 | 5 |
| Leveraged bonds | 14 | 22 | 25 |
| State match | 16 | 14 | 12 |
| Federal capitalization grants | 70 | 62 | 54 |




Assumes Federal capitalization through FY 2003 for Clean Water and Drinking Water SRFs. Increase in out-year assistance is due in part to loan repayments, leveraging proceeds, and interest earnings.

Senator BOND. I agree with all of that. But does your budget not project more money in fiscal year 1999 to go into the clean water revolving fund?

Ms. BROWNER. Yes; it does show an increase.

Senator BOND. OK. You are just taking it down this year and bringing it back up next year. That does not seem to be a normal phaseout to me.

Ms. BROWNER. Mr. Chairman, if I might. On the question of the $100 million, which you have mentioned several times, was it taken from this fund to fund Superfund? It was not.

If you look at the increases in water across the Agency, what you see is that we have made some important increases to provide the water quality necessary to this country. For example, we have moved money to allow us to deal with the Safe Drinking Water Act Amendments, the new legislation, to increase nonpoint-source funding, to do the work with the States on the total maximum daily loading. What you see are some redirections.

At the end of the day, I think the question for all of us is, are we making the most sensible use of dollars in terms of what the States need to be doing and what we do in partnership with the States? There are some redirections in our budget, because we have some new requirements that Congress has directed us to undertake that we agree with, that we think are important, and that we had to fund. That is what we did in our budget.

GPRA: BUDGET PRIORITIZATION

Senator BOND. Moving on to the planning and budgeting area. NAPA recommended EPA overhaul its budget process to allocate

resources to highest-risk-based priorities. And as I said, Mr. Hansen testified about EPA's proposed system. He stated "the new system would be in place to formulate the 1998 budget." Is it in place? Can you point to some specific examples, how it impacts the 1998 budget, and does it result in a risk-based reprioritization of activities across the agency?

Mr. HANSEN. Thank you, Mr. Chairman.

Yes, we believe that it has been implemented. Obviously, it is still in the process of full implementation. However, we have, in fact, made numerous decisions throughout the Agency's budget, in preparation for 1998 and will continue to do so. This is a key part of our effort to be able to set long-term-priority goals, to be able to have multiyear goals and annual goals, and to be able to build a prioritization process to better reflect the very priorities at the highest-risk areas and the highest areas of need.

This fits very well within that context and the Government Performance and Results Act [GPRA]. Also, we believe that the efforts we have underway, comply with GPRA. The Administrator and I believe these are steps that we ought to be taking with or without GPRA. This is being accomplished through our new structure. Sallyanne Harper, our Acting Chief Financial Officer who is here at the table, has established the process for being able to plan, analyze, and to hold accountable our systems.

RISK DECISIONS IN 1998 BUDGET

Senator BOND. I will return to Senator Craig, but I have one followup question on this.

How does your Agency's decision to increase the Superfund Program by 50 percent and the climate change action plan by 73 percent reflect this budget discipline which was supposed to be imposed and you said it is imposed on planning, budgeting, and accountability? Do not the dollars spent on Superfund provide significantly less opportunity for risk reduction compared to other EPA programs?

Mr. HANSEN. Mr. Chairman, first, regarding Superfund, and having been one of the authors of the Reducing Risk Report that came from the Science Advisory Board, this report is oftentimes one of the things that is referenced in relationship to whether Superfund is the highest risk.

We have concluded that when one looks at risk, one needs to look at it both from the standpoint of the citizens who are directly affected and those who are closest to that site. To them, it is a very high risk, as opposed to being able to look across the whole of other environmental priorities. The commitment we, as an administration, have is an obligation and a need to be able to move ahead on those very sites that are, in fact, directly affecting 1 in 4 Americans that live within 4 miles of a Superfund site.

In terms of greenhouse gases and our climate change action plan, we believe very strongly that the voluntary programs that are included within a good, nonnormal, command and control, regulatory, nonregulatory in the traditional sense program addresses a very real issue that needs to be moved forward. Consequently, it has. I think many people, certainly, the 2,500 scientists and others would

agree is one of the most pressing of problems and one of the highest of environmental priorities.

Senator BOND. Are you telling me that the risk to the people living in the vicinity of Superfund sites is a real and significant scientifically based risk, or is it a perception of the problem?

Mr. HANSEN. Mr. Chairman, of the Superfund sites, 60 percent have documented health effects associated with those sites and 40 percent have potential health effects associated with the direct contamination from those sites. So yes, it is clearly a direct, not a perceived health effect.

Obviously, one must look at each site to determine how serious the risk actually is. However, there are direct documented health effects associated with those Superfund sites.

Senator BOND. Well, I think I would like to see that system and see how you have——

Mr. HANSEN. We would be happy to.

Senator BOND. But I have already asked for the listing of the project sites. We want to know where there are specific scientifically identified risks and how you came to those conclusions and those recommendations.

Mr. HANSEN. Certainly.

[CLERK'S NOTE.—The information on the Superfund can be found in the VA-HUD Subcommittee files.]

SALMON, ID

Senator BOND. Senator Craig.

Senator CRAIG. Mr. Chairman, thank you.

Carol, this is an observation more than it is a question, because it is a frustration. And it deals with the ozone and fine particulate matter standards that you are proposing. And I want to paint a picture for you, because it speaks to the application of the problem and the need for greater flexibility than you might have anticipated in some areas.

I was recently in a community in Idaho called Salmon, ID. It is in Lemhi County. Lemhi County is as big as New Jersey, Rhode Island, Connecticut, and Delaware put together. And it is over 85 percent public land. In other words, undeveloped grasslands and timberlands. About one-half of it is national forests. This little community once had three sawmills and three tepee burners—open-air burning—and a burning operation out at the local city dump. None of those exist any more and have not existed now for a good number of years.

And yet, under your new PM–2.5, they cannot meet the particulate standards without investing a tremendous amount of money—and, to them, a tremendous amount of money—we are talking of a community of 3,000 people and a county of ranchers widely dispersed. They cannot meet the standard without the expenditure of over $500,000. And that would largely go into the paving of streets and alleys in a city where many of the streets are gravel and alleys are gravel.

Now, coupled with, is the new management by match—I call that Bruce Babbitt's new burn policy on forest lands, as management by match—they are even concerned that they would be out of compliance at increasing levels over an extended period of time if the For-

est Service actually actively engages in some reasonable management by fire. And I accept that to some extent. But without that, by just moving the standards to where you are suggesting they go—and I am not disputing that—this city is out of compliance, this little community——

Here is the addition of insult to the injury. I am told—and I visited with the mayor at length about it—because he said it this way. He said,

> Senator, it is not that we do not want to comply. It is that I cannot ask my taxpayers to comply. I cannot ask for that kind of money to do that when we have other critical needs.

Now, this is a community where health is not a factor. The greatest factor in health is that the nearest hospital of any high-level medical application is 150 miles away, over a mountain pass. And their concern about $500,000 expenditure for these particulate standards is wasteful, when they have lived all of their lives under these conditions. And, in fact, the conditions have dramatically improved over the last several decades because of the existing law.

How do we solve that problem?

Ms. BROWNER. I apologize. I am not familiar with this county. I am aware of some counties.

Senator CRAIG. No; I did not expect you to be. But this is a typical example of many of the rural environments of the West, where dust is a normal part of the environment during certain periods of the year.

Ms. BROWNER. I agree.

PM–2.5

Senator CRAIG. And then when you add to it auto traffic on gravel roads that have not been paved and will never be paved because it is economically unfeasible to pave them, and then you put in a rural community environment, we have got some problems. And then you add, on top of that, in the wintertime, heating by wood, and you have got bigger problems. Because wood, in an environment like that, where the forests are next door, makes all the right sense in the world for a form of space heating.

Ms. BROWNER. What I would like to do, with your lead, is to look at the information we have on this particular area and to have our air expert sit down with some of your people and the city or the mayor.

Senator CRAIG. Sure.

Ms. BROWNER. We recognize that, in seeking to provide a level of public health protection for fine particles, PM–2.5 is tiny. However, it is almost as if we are talking about a new pollutant. The work that has been done on coarser particles, such as PM–10, is really work on a different sort of pollutant, thus PM–2.5 is tiny when compared to PM–10. However, the health data shows us that PM–2.5 can result in large numbers of premature death.

In looking at how we will actually reduce the levels of pollution, we see that when we look nationally, that for about 40 percent of the areas that might not today be able to meet a PM–2.5 standard, they would be able to do so through technologies that we have on line. These technologies are coming into place and some are already in place. For 60 percent of the areas, we are going to have

to work literally area by area and community by community, to shape the appropriate plans and the strategies for reducing the pollution levels to meet a public health standard.

We would be more than happy, we have done this with several other communities and States already, to sit down and understand better what are the particular sources or what may be the sources there, and then to look at what may be the cost-effective, commonsense strategies.

Senator CRAIG. Well, it is important to remember in these contexts, this is a community without smog. It does not exist.

Ms. BROWNER. Yes; and PM is not smog.

Senator CRAIG. It is a beautiful, open-air environment of probably what most citizens of our country, if they walked into it, would think they are in the wilderness and say, oh, my goodness, is not this a beautiful area.

Ms. BROWNER. Yes.

Senator CRAIG. And yet they still fall out.

Ms. BROWNER. We are dealing with two different issues here. I do not believe that we think Idaho has an ozone problem. We think the concern is, as you stated originally, the fine particles.

Senator CRAIG. Yes; it appears to be that would be the greater case.

Ms. BROWNER. It is not the smog issue. It is the particle issue.

Senator CRAIG. That is right.

Ms. BROWNER. There is some good news in that, as you say, you do not have smog and you do not have an ozone problem.

Senator CRAIG. Yes.

Ms. BROWNER. I think we would tend to agree with that.

FINE PARTICLES

Senator CRAIG. This community would rather spend $500,000 on a helicopter for a life flight, so that they could really deal with human health and safety than to spend $500,000 paving roads that have been graveled for the last 50 years. They do not understand the problem. Because a community of that size, and as poor as that community is, has a choice, with limited dollars, they have to make some very real tradeoffs at times. What they are afraid is that they lose that flexibility.

Ms. BROWNER. If we could just take one more moment, Mr. Chairman, and ask Mary Nichols, the Assistant Administrator for the Office of Air, who may know a little bit more about this particular situation than I know.

Ms. NICHOLS. Well, I am not familiar with Salmon, ID.

Senator CRAIG. No; I would not expect you to be.

Senator BOND. Ms. Nichols, would you take a seat and speak into the microphone so that we can get that recorded. Thank you.

Ms. NICHOLS. I am Mary Nichols, Assistant Administrator for Air and Radiation.

I was just out visiting five Western States, along with the Director of the Western Governors' Association. I did not get a chance to go to Idaho.

Senator CRAIG. Well, you are getting a sense, though, of our concerns, sure.

Ms. NICHOLS. I have heard similar comments. Being from southern California, where we have windblown dust problems, I am very familiar with this issue, and it is a serious concern. A bit of good news, perhaps, is that, focusing on fine particles, which we believe are the ones which are more directly related to more serious health effects, in fact, eliminates most of the road dust concern. That is, the smaller particles generally are caused by automobiles and industrial pollution rather than by dust.

Senator CRAIG. Yes.

Ms. NICHOLS. However, there are areas where it simply is very difficult to find effective controls for the PM–10. We are looking, through a Federal advisory committee which Administrator Browner directed us to impanel, at whether there are some innovative ways we can implement the Clean Air Act. We are looking not only to find other technologies but, frankly, to find other ways to work with communities to develop plans to address their overall particulate and ozone problems in a more comprehensive and more cost-effective way.

Some interesting ideas are coming out of that process. We would be happy to come and talk to your staff.

Senator CRAIG. I would appreciate that. I mean Salmon is not unique. It is just a good example of a variety of communities of that character across the Western States that, on occasion, in a seasonal way, have problems. They have had those problems long before the human species existed there. But we happened along and then we put regulations on top of them. And then, all of a sudden, those regulations start costing real money, and in communities where their priorities conflict with those.

Because they just cannot understand the value of that, when yes, 30 years ago, at certain times of the year, you had a bit of dust and you had a bit of smoke, maybe not by their own doing, but by the doing of Mother Nature or by others. And we have got to demonstrate some flexibility in those communities. Because there is no base of economy to justify them spending that kind of money. Or at least that is their guesstimate now, based on an early analysis of what this could mean to them.

Ms. NICHOLS. Right. And we do fortunately have some time to actually work through those issues and try to get better information.

Senator CRAIG. Great. Thank you.

Mr. Chairman, thank you for your patience.

NAPA STUDIES

Senator BOND. Thank you very much, Senator Craig.

Administrator Browner, going back to the NAPA studies, which I like to do from time to time, that study found that EPA had no systematic way of performing program evaluations to determine what programs are accomplishing their stated goals and objectives, and that it was difficult to make rationale, informed budget decisions without it. I would be interested to know what EPA has done to establish a centralized routine of systematic program evaluation as part of the budget process.

And I would be happy to hear from Deputy Administrator Hansen. That seems to be in his ball park.

Mr. HANSEN. Thank you, Mr. Chairman.

Again, I stress that Administrator Browner and I have felt that the concepts are contained within our planning, budget analysis, and accountability office, that they address those very issues that you have just referenced and that NAPA originally recommended. These are tremendously important. We believe that the absolute key to this type of work is being able to understand exactly what we are delivering in all of our program areas, and being able to evaluate that, being able to have that as an element of our budgeting.

We are in the beginning stages of that process. We believe we have made very real progress. We have additional steps to take.

CSI AND PROJECT XL

Senator BOND. Thank you.

Let me turn now to project XL and the commonsense initiative. I expressed my concerns in the opening statement. I thought you might want to address those and find out what lessons you have learned over the last 2 years, why there have been so many problems, what specifically are you doing to see that the President's stated commitment to alternative compliance approaches is being carried out, and is there alternative compliance legislation needed?

Ms. BROWNER. First, I want to speak to the commonsense initiative. The work on an industry-by-industry and sector-by-sector basis has produced some very, very important results. It has not been without its difficulties, in terms of its history, the relationships between industry and local communities, State representatives and others. What we did for the first time ever was bring everyone together and build a level of dialog, a level of trust.

I think you had suggested that the automobile and the petroleum industries had withdrawn from CSI. They have, in fact, committed to continue in the process. I am not suggesting that they may not want to revisit that at some point. Again, it is not without its challenges. However, we are very proud of the dialog and the work that is being done.

Each of them is different. We took the time and the resources to bring in an outside evaluator to look at this program, to review whether or not this was working, what could make it better and what lessons were learned. The evaluator found and what the evaluator shared with us and the CSI council is that, in each instance, the individual sectors believe they are making progress. No two are alike, but then no two sectors are alike.

So we are committed to continuing our sector-by-sector approach, building on the success of the dialogs on the work heretofore.

In terms of project XL, we are actually doing the difficult work, on a project-by-project basis, of finding out how to go beyond current requirements, to actually get better environmental performance. We have projects that are now up and running, showing us that you can go further.

I joined Intel in announcing their project. This is a facility that is literally acres. When we are done and when Intel and the community groups that are working together on this project are done, its emissions will be less than 1 neighborhood gas station. This is not a small undertaking.

In terms of legislation, I would encourage you, as I think you suggest that you are inclined to do, to look to E4E and the work that Bill Ruckelshaus is doing. We have been extremely active participants in that process. Fred Hansen, I think, has attended all of the meetings. I have spoken with Mr. Ruckelshaus on several occasions. We believe there is a real sense within that group of how to really fashion any legislative recommendations that may be forthcoming, and we would encourage all to await the outcome of that process.

I think they are hoping to wrap up their work in the next several months. That is the target they are on. I know the last time I spoke to Bill Ruckelshaus, that was certainly what he thought was when they could be able to conclude their work.

E4E PROGRAM

Senator BOND. I am very supportive of the E4E program. I have urged them to go forward. It is not my sense that they are going to come up with specific legislative proposals, but that they will come up with general principles. But nevertheless, whether they come up with proposals or not, and we are most anxious to see their report, the question to you is do we need alternative compliance legislation? Right now, you have got the ball.

Ms. BROWNER. At this point in time, I do not think we need alternative compliance legislation, and I will explain why.

Senator BOND. Well, the Amoco, you could not do the Amoco project in Virginia.

Ms. BROWNER. Well, Amoco is a good example of the kind of analysis that you have to go through to understand the shortcomings of an individual statute. In the case of Amoco, I think the lessons learned from Amoco are demonstrated in Intel, where you actually were able to go out and figure out how to do something to speak to the air issues to get greater environmental progress, and to provide flexibility in exchange for that environmental progress. So we learned from Amoco.

I would suggest to you that it is not accurate, and I do not think you are saying this but I think someone said this, that somehow or another Amoco shows you that the whole system is flawed. We learned from Amoco, and we have moved on from Amoco in a very real and concrete manner.

What I think you did in drinking water in actually looking at an individual statute, understanding what the goals of that program are for the people of this country, and how best to provide appropriate flexibility will at the end of the day be the best way to deal with these challenges. Each of these statutes are fundamentally different. They seek to speak and look to fundamentally different challenges. I think trying to speak across them will prove to be all but impossible in the short run, and it may well be that E4E will give us some guidance and advice on how to do that. However, we will get the greatest progress in the new generation of environmental programs and solutions by going into the guts of existing statutes and working within them to craft the new solutions.

GREEN PROGRAMS

Senator BOND. Well, I do not in any way downgrade or deny what apparently is and will be happening at Intel. I think that is great. The fact remains it is one of three out of 50 we were expecting, and we want to know—if you think there is no legislation necessary, then I would expect the pace to pick up very significantly. And I am asking the question do you need legislation, because something seems to be holding the program up. That is the reason I asked it.

Let me move now to the green programs. The climate change action plan was issued in October 1993 to meet the goal of stabilizing greenhouse gas emissions at 1990 levels by year 2000. As I understand it, the program was designed to reduce greenhouse gas emissions by 109 million metric tons of carbon equivalent relative to 1990 levels. Yet EPA has achieved only .6 MMTCE reduction through 1996. Given that 0.6 out of 109 million goal, why do you think that we can make much more significant progress? Why should we provide additional assistance to that plan?

Ms. BROWNER. When the President announced the administration's plan, the commitment, and the recognition were that if we would stabilize in the year 2000 at 1990 levels we would need a 110 million metric ton reduction. We will not make that. We will not make that in part because we have had growth. Thus, we actually need greater reductions than were originally forecasted. Also, we have not had the financial resources. We have not had the appropriation levels to allow us to do the kind of work that would have resulted in greater reductions. It is just that simple.

We take the money that is appropriated in the Climate Change Action Plan Program and work in a variety of ways. Many are the kind of new generation tools that have been encouraged, that we have been encouraged to utilize in terms of forming partnerships with businesses and finding more commonsense, cost-effective solutions to pollution. We use that money to go out and do that work, and it does result in very real reductions in the kind of climate change gases and other things that we are worried about.

Mary, do you have the specific numbers?

Ms. NICHOLS. This is Mary Nichols again. The most recent assessment that has been done by the interagency group on this shows that if the full 1997 enacted levels are maintained that we would achieve 80 million metric tons by the year 2000. This is about 75 percent of what was originally projected to be needed. As the Administrator indicated, our estimates were wrong, because there has been more growth than was projected. However, we do project that if the funding that the President sought was restored that we could make up the 25 million metric ton shortfall by the year 2005. In other words, we would meet the goal that we had actually set for ourselves through the green programs based on what we are actually achieving today in terms of companies installing energy-efficient equipment.

Senator BOND. But you would agree that to date reduction has been 0.6 in MMTCE?

Ms. NICHOLS. Yes; that is just one of the programs of the total.

Ms. BROWNER. There are many programs.

Ms. NICHOLS. I am giving you the totals for the Climate Change Action Plan Green Program. One of those was the .6. I frankly cannot remember which one it was.

Senator BOND. We would like to see the analysis.

Ms. NICHOLS. Sure. We will be glad to provide that to you.

[The information follows:]

GREENS PROGRAMS: GREENHOUSE GASES REMOVED

The Administration's analysis of the full impact of the Climate Change Action Plan programs, which is being coordinated by CEQ, is still underway. Comprehensive, draft results will soon be completed, at which time they will be immediately provided to the Committee. At the same time, the results will be available for public comment via a Federal Register notice. It is expected that these results will be available before the end of May. After receiving comments and conducting any further analysis, the results will be finalized and published later this summer in the United States' second submission to the Framework Convention on Climate Change.

Nevertheless, it is clear that EPA's partnership programs are successfully overcoming market barriers (such as the lack of reliable information) to investments in economically attractive technologies that reduce greenhouse gas emissions. Despite a 40 percent Congressional budget cut in fiscal year 1996 and fiscal year 1997, EPA's partnership programs prevented the emission of over 6 million metric tons of carbon equivalent, or mmtce during the past year, equal to the pollution from over 3 million cars. In the past year, program partners and consumers also saved over $750 million on their energy bills due to CCAP programs, helping to prove in yet another way that pollution prevention is a contributor to economic growth.

It is the nature of these programs that their benefits will accumulate rapidly, now that solid foundations have been laid. Just as the pollution savings last year doubled the savings from the previous year, the pollution prevention from these programs is expected to double again in 1998. This is due to the more than 3,000 strong partnerships that EPA has formed with corporations, small businesses, universities, hospitals, utilities, and state and local governments.

Senator BOND. We provided 96 million in 1996 and 86 million in 1997. You say with that we will get 75 percent of the way toward the goal?

Ms. NICHOLS. Yes, that is right.

Senator BOND. I would be interested in seeing that, thank you, if you would provide that analysis.

Ms. BROWNER. Certainly.

SBREFA

Senator BOND. Madam Administrator, what specifically are you requesting for any additional requirements or burdens associated with the Small Business Regulatory Enforcement Fairness Act, known as SBREFA, or the Red Tape Relief Act.

Ms. BROWNER. Each of what we would refer to as the large component programs, such as air, water, waste, pesticides, and toxic substances, have a responsibility under the law as they move through a rulemaking to comply with the small business aspects: bring the panels in where appropriate and work in partnership with the small business community. So those are managed in each of the program budgets.

In addition, we have asked our Office of Policy, Planning and Evaluation to provide an across-the-Agency management of the requirements under SBREFA to ensure that we are doing everything that is important, not just in terms of the letter of the law, but in the spirit of the law. There is included in their budget a dollar amount of $200,000 or more to provide that coordination. That is in addition to what is in each programmatic area.

PEER REVIEW

Senator BOND. Finally, in a recent report GAO was critical of EPA's implementation of the peer-review policy. GAO attributed the uneven implementation to inadequate accountability and oversight to ensure that all relevant products are properly peer reviewed, and confusion among EPA staff and management about what peer review is, its importance and benefits, and how and when it should be conducted.

Ms. Browner, when you came into office you claimed peer review would be top priority. We agreed with that. You instituted a peer-review policy. Could you articulate precisely what the peer-review policy is, why its implementation has been uneven, why the top science official in the Agency, Dr. Huggett, was not the responsible official for the Agencywide implementation, and how will you ensure that adequate oversight of peer review is exercised?

Ms. BROWNER. There are generally speaking, two ways in which peer review is important to the work we do at EPA. Obviously, within our Office of Research and Development the sort of traditional scientific analysis research done by the Agency peer review is extremely important. Under Dr. Huggett's leadership, that office has installed a peer-review policy that has been praised by many in the scientific community as taking our peer review to a new level.

We also do science in our individual program areas. The Office of Water undertakes scientific analysis in conjunction with our Office of Research and Development. In some instances they do science beyond what our Office of Research and Development might be doing, particularly in the case of an individual rulemaking or regulatory action. This is true for all of the large programs such as air, waste, pesticides, and toxic substances.

In each of those programmatic areas, we have also directed the development of peer-review programs to ensure that peer-review panels are used where appropriate. Given the fact that we have these two general areas where peer review can occur, I felt it was important to have Fred Hansen provide the leadership across the Agency to ensure that we were using this very important tool of peer-review practices. My sense is, and if I might ask Mr. Hansen to speak more specifically, that when GAO looked at this what they found is within the Office of Research and Development a very good program, and a program that was up and running. GAO also feels that we needed to similarly bring along the programmatic peer-review programs, and that is what we have been focusing our efforts on.

I might just point out that in fiscal year 1997 we had 231 panels of scientists reviewing our work. They reviewed almost 3,500 studies, just to show you how many times we are going to external peer review panels. This is no small undertaking on our part.

Mr. HANSEN. Just briefly, two things. First, we believe very strongly that if peer review is not done where the science is actually done we will not have as much engagement in exactly the best peer review and processes to ensure that the overall goals are achieved. That is why we believe it is important to have peer review done in all the places that science is done.

Second, what the Administrator has just indicated has not happened within the program offices as well as we think is necessary. In January of this year, to be able to carry out the Administrator's requirement, I have asked Dr. Robert Nuggett, Assistant Administrator of the Office of Research and Development, to do two things. One, provide a level of training throughout the Agency to ensure that all of our people who are involved in science understand exactly what it is to be able to conduct all the details of peer review. Not because they did not have a general understanding of its process. Two, ensure that peer review is applied to all products that are worked on by the EPA, and if there are any deficiencies, that they are either worked out between Assistant Administrators, between Dr. Huggett and that Assistant Administrator, or brought ultimately to me for any resolution.

We take peer review very, very seriously. We think that it is the backbone of our good science.

CLOSING REMARKS

Senator BOND. Thank you, Mr. Hansen.

Ms. Browner, we will leave the record open. If you have comments on the many points that were raised and not fully explored, we will have questions that we ask for you to respond to and would welcome any comments you have.

In closing, I would note that it appears to me that if you are really applying a relative risk methodology to the budget, I just do not believe that Superfund would get a 50-percent increase. To me, let us be honest, I think this request is driven not by the merits but more by politics, because while the Superfund budget would increase dramatically, the clean water State revolving fund, a program which works well and for which tens of billions of dollars are needed, would be cut by $275 million——

Ms. BROWNER. No; it is $100 million.

Senator BOND. It released funds early in the year. It is $275 million. It is a cut, in any event.

Ms. BROWNER. We will agree with you that $100 million was redirected. We would like to discuss with you the other $175 million, because we do not understand where that number comes from, with all due respect.

Senator BOND. Well, it is cut. We believe it is cut $275 million.

The GAO has found that Superfund is one of the 25 Government programs which is high risk, subject to fraud, waste, abuse, and mismanagement. We look forward to working with you to reform a program which has been criticized for years, and when we get the reforms enacted I will be happy to talk with you about it. But as I note, even the States and the State officials responsible are skeptical that the dollars can be effectively and efficiently utilized.

ADDITIONAL COMMITTEE QUESTIONS

So we will continue to work on that, and before I close I ask unanimous consent of all of my colleagues on the committee to keep the record open to include testimony from the GAO on Superfund and NAPA related issues.

Hearing no objection, it is so ordered. [Laughter.]

[The following questions were not asked at the hearing, but were submitted to the Agency For response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR BOND

SUPERFUND OUTYEAR PROJECTIONS

*Question.* EPA's budget proposal assumes that 76 percent of the sites currently in the construction and design phases of the Superfund "pipeline" would be completed by 2000, leaving less than 500 sites in the "pipeline." Yet your outyear budget projections for fiscal year 2000 through 2002 show $1.4 billion a year. Given that the number of sites left to be cleaned up would be cut in half, why is EPA projecting $1.4 billion outyear budgets?

Answer. The Agency estimates that approximately 18 fund-lead remedial action starts will occur after the fiscal year 1998 and fiscal year 1999 accelerated cleanup initiative is completed in the year 2000. In addition, the Agency's budget estimates the Superfund program will list 30 sites per year on the National Priorities List (NPL). In other words, 30 sites per year are entering the Superfund "pipeline" which will result in more than 600 sites by fiscal year 2001. Resources at the current fiscal year 1997 level in 2000 and beyond will be necessary to maintain a steady progress of sites through the entire site remediation process.

SUPERFUND GAO REPORT ON HIGH RISK

*Question.* In a February 1997 report, GAO reported that Superfund was a high risk program—vulnerable to mismanagement, waste, fraud and abuse. In light of GAO's high-risk designation, how could the Congress have any confidence that the funds you are requesting would be spent prudently and effectively?

Answer. GAO's high risk report acknowledges EPA's efforts to correct past contract management problems and commends those efforts. Some of the contracts management improvements the Superfund program has made include: (1) reducing program management costs from a high of 20 percent at the start up of the Alternative Remedial Contracting Strategy (ARCS) contracts to a national average of 8.4 percent for fiscal year 1995 and fiscal year 1996, (2) increasing management emphasis on obtaining independent government cost estimates and establishing improved cost tracking systems to provide better historical cost data bases, and (3) instituting improved invoice review processes. Over the past few years, EPA has focused increased attention on strengthening its management of Superfund contracts and will continue to do so in the future.

SUPERFUND GAO REPORT ON CONTRACT MANAGEMENT WEAKNESS

*Question.* GAO's recent report said "although EPA has been addressing the weaknesses in contract management, the agency remains vulnerable to overpaying its contractors and not achieving the maximum cleanup work with its resources." GAO found that EPA pays its cleanup contractors a high percentage of total contract costs to cover administrative expenses rather than ensuring the maximum amount of available funds is going toward the actual cleanup. What plans does EPA have to address these contract management weaknesses?

Answer. As discussed in the Agency's response to the GAO's high risk report, we take exception with many of GAO's findings. Our own internal regional reviews have shown that the agency has made significant strides to establish the practice in which independent government cost estimates (IGCE's) are performed for all work assignments and sufficient negotiation documentation exists in cases where costs different from those in the IGCE's are accepted. Additional actions we are taking in this area include sharing best practices and expertise in preparing IGCE's among the regions and instituting an improved cost tracking and reporting system under the Response Action Contracts (the follow on to the ARCS contracts). In addition, the high program management percentages cited by GAO were due in large measure to the lack of work assigned to these contractors in fiscal year 1996. Fiscal year 1996 was clearly an atypical year due to the budget situation and it is misleading to make projections based on this data. We continue to emphasize the need to control and minimize program management costs under all of our cleanup contracts and to monitor these costs very closely.

SUPERFUND DEOBLIGATIONS

*Question.* In testimony provided for the record today, GAO states that $250 million in unspent obligations are potentially available to be recovered on over 6,000 completed work orders in the Superfund program. Once deobligated, these funds

could be applied to ongoing and new cleanup activities. EPA's fiscal year 1997 and fiscal year 1998 projections include only $50 million and $20 million, respectively, in deobligations. What accounts for the difference between EPA's projected deobligations of $70 million over the next two years, and GAO's estimate of $250 million?

Answer. Differences in methodology account for the variances in EPA's and GAO's estimate of deobligations over the next two year. GAO assumes that all unliquidated funds in completed "work orders" are available for deobligation. GAO's estimate does not take into account the fiduciary reserves that EPA and States hold in their contracts to cover costs associated with contract closeout. EPA's deobligation estimate assumes that prudent reserves will be maintained to cover closeout costs. However, the Agency is working diligently to deobligate inactive funds where appropriate.

SUPERFUND PACE OF DEOBLIGATIONS

*Question*. Why has EPA been slow to deobligate these funds? Couldn't your budget request be reduced by enhancing your efforts to deobligate the full $250 million available?

Answer. The Agency has moved aggressively to deobligate inactive funds. In 1994, the Agency established a taskforce to promote prompt and effective deobligation of Superfund funds that had not been fully utilized. In the three full years of this deobligation effort, a total of $397 million have been deobligated (fiscal year 1994 $160 million, fiscal year 1995 $170 million, fiscal year 1996 $67 million). These efforts will continue in fiscal year 1997 with a special emphasis on expired contracts and grants. Due to fiscal year 1997 efforts and the need for fiduciary reserves to cover contract closeout costs, the majority of the contract dollars identified by GAO will not be available in fiscal year 1998.

SUPERFUND DEOBLIGATION EFFORT

*Question*. What level of resources are you devoting to this deobligation effort, and how much do you need to deobligate the full amount available?

Answer. The President's budget provides adequate resources to headquarters and regions to process all appropriate deobligations. The Agency has established a deobligation task force with representatives from five headquarters offices and all Regions and issued guidance on processing deobligations. The task force works with programmatic, contracting, grants, and finance personnel to process all appropriate deobligations. Due to the need for fiduciary reserves to cover contract closeout costs, the Agency does not believe an increase in personnel would result in deobligation of the full amount identified by GAO.

SUPERFUND CLEANUP: AVERAGE COSTS

*Question*. EPA has claimed its administrative reforms result in a 20 percent reduction in the cost of cleanups. Yet in the model EPA developed to support the requested level of resources, EPA used a pricing factor of the average cleanup cost for fiscal year 1987–95 with 60 percent cost growth. Why would you have assumed such cost growth if in fact you are seeing 20 percent savings?

Answer. The 20 percent cost savings is based on Record of Decision (ROD) estimates of construction costs. In calculating the average Remedial Action (RA) cost, the program applies a cost adjustment, a cost growth factor. The construction cost estimates in the ROD are made on average 3 years in advance of actual construction. Cost adjustments related to new information discovered during the design of the project and time are reasonable and standard engineering practice. This adjustment is a fixed percentage and would apply to any ROD estimate. It has no effect on the cost savings exhibited in the last several years worth of ROD estimates.

SUPERFUND COST OF CLEANUPS CBO ESTIMATES

*Question*. CBO tells my staff that the average cleanup cost ("ROD" cost) for fiscal year 1994–95 was $5.6 million, and applying 20 percent cost growth would be appropriate, for a total cost of $6.72 million. Why, then, is EPA assuming a $10 million cost for remedial actions?

Answer. The $10.0 million average remedial action cost figure was used because it represents the average of ROD estimates plus a cost growth for ROD's signed post the Superfund Amendments and Reauthorization Act of 1986. Applying a recent two year average of estimated remedial action costs would under estimate the resources required to complete construction at these sites.

SUPERFUND SITE DATA

*Question.* EPA's budget estimates are based on the number of sites in the queue and historical cleanup costs, not real data on specific sites. Why?

Answer. Budget estimates, which are based on real data, are used because it is difficult to say with certainty 18 months prior to the beginning of a fiscal year which specific sites will begin construction. Averages based on historical performance provide reasonable indicators for resource and time requirements.

SUPERFUND SITE DATA: RISK RANKING

*Question.* Does EPA have a list of specific projects to be funded in fiscal year 1998, including a risk-based ranking, an estimated cost for each, along with a projected start-date?

Answer. The Agency has a list of candidate sites with planned remedial action starts in fiscal year 1998. These sites have not yet been ranked using the Agency's risk ranking system. These sites do have planned start dates and cost estimates. It should be noted that the cost estimates would be used in generating the average remedial action cost used for the budget projection. A list and total cost estimate of the planned projects was provided to the Senate Appropriation's Committee staff on April 3, 1997.

*Question.* If EPA does not yet have such a list, how can we be sure that EPA could actually spend the dollars requested?

Answer. EPA does have a candidate list and a projection for the cost to complete construction. This list and a total cost estimate was provided to the Senate Appropriation staff on April 3, 1997. Site specific cost estimates were not provided due to the procurement sensitivity of the data.

SUPERFUND RISK-BASED PRIORITY SETTING

*Question.* Would EPA continue to use its risk-based priority setting process in Superfund?

Answer. Yes. The Agency intends to continue the risk ranking process to ensure that the worst sites are addressed first.

*Question.* Given that virtually all sites ready to go to construction would be funded, why would this be necessary?

Answer. While it is true that most sites would be funded, it is important that the Agency continue to address the highest risk sites first.

SUPERFUND STATE COSTS

*Question.* States are required to put up 10 percent of the cleanup cost. Have you checked with the States to determine whether they could afford their share of the cleanup costs?

Answer. The Agency is continuing to work with the States to address strategies for cost share on the candidate sites. Possible considerations, in lieu of lump sum payment, are phased payments and in-kind services.

SUPERFUND FISCAL YEAR 1997 PROJECTED START DATES

*Question.* EPA projects there will be 58 sites in fiscal year 1997 ready-to-go to construction, but unfunded because of budget shortfalls. However, about a third of these sites are not projected to be ready until the fourth quarter. Isn't it true that projected start-dates often slip?

Answer. While projected start dates can slip, the Agency's best information indicates that the 58 sites will be ready for construction this fiscal year.

SUPERFUND 900 SITES COMPLETION SCHEDULE

*Question.* EPA has indicated the additional funds requested would enable it to complete 900 sites by the year 2000, instead of 650 construction completes committed to in 1991. Over the life of the program, there have been about 423 construction completions to date. How will EPA achieve another 477 completions—more than the total number completed in 15 years—in less than three years?

Answer. Current analyses of the Superfund site cleanup pipeline show that 147 sites are in design and 482 sites are in construction. This provides a universe of 629 sites that are potential candidates to achieve the 477 completions needed to reach the President's 900 construction completion goal. With the resources requested over two years (fiscal year 1998 and fiscal year 1999), the Agency will be able to provide project managers and funding necessary to move these sites to construction completion.

SUPERFUND ADEQUATE STAFFING

*Question.* Are there sufficient staff to manage and contracting capacity to carry out these additional cleanups?

Answer. The President's Budget requests an additional 100 full-time equivalents (FTE) to support the 900 construction completions goal. This will provide the necessary staff to support the accelerated number of cleanups projected. Recently the Agency awarded a new set of remedial action contracts. These contracts provide ample contract capacity over the next five years to accommodate the estimated number of construction projects.

*Question.* While EPA's budget indicates an additional 130 FTE would go to Superfund, I understand that the budget is adequate to fund only 44 of those. How can you say you've requested enough staff to oversee a doubling of the program?

Answer. The Superfund budget supports full funding of all FTE's.

SUPERFUND ATSDR FUNDING

*Question.* Why isn't EPA requesting increases for the other agencies who support the Superfund program—such as the Agency for Toxic Substances and Disease Registry?

Answer. Most of the increases are requested for cleanup activities that our other Federal agency partners don't perform. However, the Agency is requesting $6.0 million in funding for the Agency for Toxic Substances and Disease Registry (ATSDR) to specifically support the President's 900 Superfund completion goal. ATSDR will address community concerns regarding how the implementation of cleanup designs affect their health ad surrounding environment. The other federal agencies do not play as active a role in remedial site cleanup. Their responsibilities focus on research, worker safety training, and emergency response. The President's 1998 budget requests total funding of $152.1 million for other Federal agencies who support the Superfund program.

SUPERFUND REDUCED FUNDING AFFECT ON 900 SITES

*Question.* If the Congress were to provide the $1.4 billion originally projected for fiscal year 1998, how many "ready-to-go" projects would carry into fiscal year 1999?

Answer. The Agency expects to carry over 50 to 55 fund-lead sites from fiscal year 1997 to fiscal year 1998. Eighty fund lead projects are planned in the fiscal year 1998 budget. If the Agency's Superfund budget remains at the $1.4 billion level, it is estimated that over 100 fund-lead sites will carryover into fiscal year 1999.

METHYL PARATHION

*Question.* What is the status of EPA's efforts to cleanup homes contaminated by the illegal application of methyl parathion?

Answer. As of April 18, 1997, the Agency was responding to 3,687 homes with reported methyl parathion spraying. The Agency has sampled 2,629 of the 3,687 homes, relocated 503 of the households, totaling 2,239 residents. Of the 2,629 homes sampled, 57 are completely clean and 195 residents have been returned to their homes. Twenty-five businesses require cleanup of which 4 have been cleaned.

*Question.* How much has been expended to date and how much additional funding will be required in fiscal year 1997?

Answer. To date, the Agency has issued $33.0 million to address the cleanup of methyl parathion application. The Agency expects to issue another $32.0 million by the end of the fiscal year.

*Question.* Some have questioned whether this activity is an appropriate use of the Superfund budget. Has EPA General Counsel made a determination on whether such expenditures are appropriate?

Answer. The Agency's Office of General Counsel has concurred on all the decision documents prepared outlining the Agency's response to the methyl parathion public health.

METHYL PARATHION DELIBERATE USE

*Question.* Some Louisiana residents have been accused of deliberately having their homes sprayed with methyl parathion "to take advantage of a federal offer to renovate their homes," according to The Washington Post (March 10, 1997). Is this accurate?

Answer. The EPA Office of Inspector General (OIG) has presented (April 16, 1997) three cases of suspected fraudulent claims relating to methyl parathion application to the U. S. Attorney's Office in New Orleans, Louisiana. The OIG is currently

awaiting a prosecutive decision. There have been several arrests made by the EPA Criminal Investigations Division regarding the illegal application of this substance.

*Question*. How will the costs associated with those emergency removals be recovered to the Superfund trust fund?

Answer. The costs associated with the emergency removals will probably never be recovered to the Superfund trust fund. The individuals suspected of submitting fraudulent claims live well below the poverty level and are not likely to be subjects of Department of Justice (DOJ) civil actions. The OIG has been working with Agency officials to set up controls to identify fraud indicators and is providing the DOJ with the most egregious case identified to create a deterrent effect.

EPA–STATE PARTNERSHIP: REGULATORY FLEXIBILITY

*Question*. In President Clinton's 1996 state of the union address he said "We must challenge business and communities to take more initiative in protecting the environment and we have to make it easier for them to do it." Yet EPA has taken the position that all requests for state regulatory flexibility projects must meet the criteria for superior environmental performance. Why? What incentive is there for attempting innovative regulatory programs if a fundamental requirement is superior environmental performance—as opposed to simply the most efficient and effective means of meeting environmental requirements?

Answer. Although significant improvement has occurred over the last 25 years in the U.S. environment, much remains to be done. In traditional regulatory program areas such as air and water, many areas of the country do not meet standards, and areas of environmental concern continue to grow. Given projected population growth and anticipated economic growth, continuous environmental improvement has become an approach that many companies and communities endorse—to ensure a sustainable future. For example, the three companies that have signed Project XL agreements have identified "win-win" solutions for both the company and the environment, agreements through which an innovative approach can achieve superior results and also save money for the company. The Aspen Project, a broad-based consensus effort, concluded that requiring superior environmental performance in exchange for regulatory flexibility in Project XL was the best way to achieve sustainable development.

Many opportunities exist to improve environmental protection through innovations that are straight forward, technically achievable, and non-controversial—and most of these innovations will also provide environmental benefits. In some cases, innovations may be designed primarily to improve the cost effectiveness of achieving environmental goals; these projects must ensure there is no adverse impact on environmental protection, public access to information, and public access to the decision making process.

EPA–STATE PARTNERSHIP DIMINISHED REGIONAL ROLE

*Question*. Ms. Browner, two years ago you said "I think the most important thing that we can do, and do it immediately, is diminish the oversight of the regions of the states' actions. We do not need to be in there second guessing them at every turn." Can you tell me how the regional oversight has been diminished, and how the role of the regions has changed in the past two years?

Answer. EPA is successfully working with the states to reshape the federal-state relationship to develop true partnerships between the federal government and states to provide the best possible environmental management system. The Environmental Protection Agency is currently in the second year of working with the states under the National Environmental Performance Partnership System (NEPPS). NEPPS is a program that evaluates environmental problems and program needs. NEPPS Agreements and Grants are based upon state specific measurements of results. The Performance Partnership Agreements and Grants are voluntary, and are flexible enough to either encompass a broad range of environmental programs or they can focus on single programs as defined by the state.

Regional oversight of a state's environmental programs can be significantly reduced through NEPPS by the state and the regional office agreeing on what the state's annual accomplishments should be. A series of performance measures has been developed by each of the Agency's programs to assist the regions and states in negotiating Performance Partnership Agreements. These performance measures were reviewed by the Environmental Commissioners at their Spring meeting in March 1997, and received their endorsement. This program is succeeding in reducing oversight by changing the fundamental relationship between the EPA Regions and the states from one of federal oversight to a true partnership.

At last year's EPA-States Meeting, attended by state environmental commissioners and EPA senior management, and at the last EPA Annual Planning Meeting, a common theme was the need for more assistance from regions to states to make a real working partnership effective. The regions held discussions with states that revealed states and tribes highly value the technical assistance and applied science capabilities EPA brings to difficult environmental problems. Many states highly value EPA's technical, programmatic, scientific, and legal assistance in dealing with permit review and enforcement in both non-delegated and delegated programs.

EPA has focused on work-sharing with state and local governments through several new approaches. In addition to NEPPS, the Agency is working with states and local governments through such efforts as Regional Geographic Initiatives, XL, compliance assistance, and technical assistance. We are trying to maximize state and Federal resources by dividing the work, moving away from counting administrative actions, and moving toward using environmental results as our indicator of progress and success. Our role is to address problems that state programs cannot or do not have the appropriate skill-set to handle.

Many geographic, tailor-made solutions are more labor-intensive and may require more time and resources, especially in the short-term. According to a report done by ECOS magazine, 23 states reduced their resources devoted to environmental management from fiscal year 1995 to fiscal year 1996. In addition, states continue to expect EPA to deal with federal facilities and emergency response, cross-state boundary issues, and international issues. States need the talents of many specialists, who are brought together through project-specific teams. This is especially true for the regional labs who provide extensive technical support. States have begun to ask us to help fill their gaps with technical assistance and direct support.

EPA has reduced oversight where appropriate, maintained oversight where we are statutorily obligated to do so, and redirected efforts towards new activities, often at the request of states, tribes, industry, and the general public. Oversight reduction has been ongoing for the last few years. Some oversight is and will continue to be necessary; just as direct federal action will continue to be necessary in some cases.

It is important to note that while we have indeed shifted resources to many new activities, we still have activities we are statutorily required to undertake. We have a legal obligation to ensure national standards and implement programs the states have elected not to take on. We also have a unique role with tribes in carrying out our Trust responsibilities. If we discover that reduced oversight in a particular state leads to less diligent enforcement, for example, EPA will exercise the appropriate federal responsibility to ensure a level playing field across state boundaries and take needed action to remedy the situation.

NAAQS PARTNERSHIP AIR GRANTS

*Question.* Ms. Browner, while you have professed great commitment to the EPA's proposed new standards for ozone and fine particles—claiming they would result in averting 20,000 premature mortalities—your budget does not seem to reflect that commitment. EPA's budget request provides a very marginal—3 percent—increase for air grants to the states. How can states undertake the multitude of tasks required to implement these proposed rules with the budget you've requested?

Answer. In fiscal year 1998 much of the work involving the new air quality standards for ozone and fine particles will remain with EPA. Development of implementation policies and guidance materials will be a principal priority of the Office of Air and Radiation for fiscal year 1998. Once the new standards are promulgated, States will have 3 years to submit their plans addressing how they will attain the new standards. The due date for these plans is presently anticipated to be July, 2000.

The initial state need in addressing the new PM fine standard will be to develop and implement a monitoring network to measure the ambient levels of fine particles. In EPA's fiscal year 1997 and fiscal year 1998 budget, the Agency has included funds to begin the establishment of fine particle monitoring networks. Initial efforts are primarily aimed at laboratory equipment and other infrastructure needs. Once EPA promulgates a fine particle standard and a subsequent federal reference method for ambient monitoring, greater emphasis will be placed on the purchase and siting of monitoring equipment.

We are currently working with the states to examine the states' total needs for implementing programs to meet these new standards.

NAAQS PARTNERSHIP AIR GRANTS

*Question.* Ms. Browner, while you have professed great commitment to the EPA's proposed new standards for ozone and fine particles—claiming they would result in

averting 20,000 premature mortalities—your budget does not seem to reflect that commitment. EPA's budget request provides a very marginal—3 percent —increase for air grants to the states. How can states undertake the multitude of tasks required to implement these proposed rules with the budget you've requested?

Answer. In fiscal year 1998 much of the work involving the new air quality standards for ozone and fine particles will remain with EPA. Development of implementation policies and guidance materials will be a principal priority of the Office of Air and Radiation for fiscal year 1998. Once the new standards are promulgated, States will have 3 years to submit their plans addressing how they will attain the new standards. The due date for these plans is presently anticipated to be July, 2000.

The initial state need in addressing the new PM fine standard will be to develop and implement a monitoring network to measure the ambient levels of fine particles. In EPA's fiscal year 1997 and fiscal year 1998 budget, the Agency has included funds to begin the establishment of fine particle monitoring networks. Initial efforts are primarily aimed at laboratory equipment and other infrastructure needs. Once EPA promulgates a fine particle standard and a subsequent federal reference method for ambient monitoring, greater emphasis will be placed on the purchase and siting of monitoring equipment.

We are currently working with the states to examine the states' total needs for implementing programs to meet these new standards.

NAAQS AIR GRANTS PM FUNDING

*Question.* In addition, in your agency's proposed fiscal year 1998 budget you have set aside only $10.9 million in grants for state and local air agencies for particulate matter monitoring, which is something they'll need to start right away. However, much of that is simply reprogrammed money—taking funds away from other important air programs, such as ozone or PM 10 monitoring. Aren't these programs still required under the Clean Air Act? If so, how are the states going to pay for them?

Answer. EPA's fiscal year 1998 budget, $10.9 million would provide for the implementation of fine particle monitoring networks. This amount is an $8.2 million increase over the amount available for fiscal year 1997. Of this $8.2 million, $4.0 million would be funds over and above the total amount appropriated for fiscal year 1997. The remainder, $4.2 million is reprogrammed from other activities that were either completed in fiscal year 1997 or can be delayed in order to expedite the implementation of the fine particle network. Two activities comprise the $4.2 million. In fiscal year 1996 and fiscal year 1997, $2.2 million was directed towards the establishment of data delivery systems that would enhance the transmission of emissions inventory data from the States into EPA's emission inventory data systems. With this 2 year effort completed, we are able to redirect these funds to the fine particle network. The remaining $2 million comes from the total funds available to the Photochemical Assessment Monitor Stations (PAMS) program. In fiscal year 1997, $14.7 million was available for PAMS; for fiscal year 1998, we are able to redirect $2.0 million of those funds to the fine particle network. The $2 million reduction in PAMS funding is brought about by reducing the sampling frequency at certain PAMS sites. Reduced sampling frequency saves both in FTE's as well as reductions in supply costs and equipment replacement costs. Reducing the sampling frequency while reducing the total data collected, does not impact the integrity of the data or our ability to shows trends in air quality levels.

NAAQS AIR GRANTS MACT STANDARDS

*Question.* One area of great concern is the release of hazardous air pollutants. For that reason, the Clean Air Act calls upon EPA to develop a series of standards to curb these emissions—MACT standards. We understand that you have a MACT Partnership Program under which state and local air agencies have such expertise. However, if the Clean Air Act gives the responsibility for developing the standards to EPA, why is it that under your proposed allocation of air grants to state and local air agencies for fiscal year 1998 you plan to make these air agencies use their own grant funds to help you. Since the Act calls upon EPA to carry out this function, shouldn't the agency use its own budget for that and leave state and local air grants for other activities for which state and local agencies are primarily responsible?

Answer. The Agency does not require states and local agencies to use their grant funds to help us develop rules but rather offers them an opportunity to participate in the process. The MACT Partnership program brings together the knowledge, skills and resources of all major stakeholders in the development of MACT standards under Section 112 of the CAA. This has been necessary because frequently stakeholders want issues addressed that go beyond our basic mandate to create MACT standards (e.g., our efforts to bring emission averaging into the MACT pro-

gram or providing alternatives to specific state rules). As a part of this program, we involve state and local personnel in the initial thinking and planning about a MACT standard. The state and local agencies generally want to participate and have agreed that we can identify an appropriate portion of their grants for this purpose. This allows them to share data and information among themselves and EPA and to develop their interest in the completion of a MACT standard, along side with the industry affected by the standard. The goal is to provide the best possible ways for state and local interests to be incorporated into the final MACT standard. This involvement (and the grants) are not associated with the main work in developing a MACT standard; state and local personnel decide independently if they want to participate in such efforts. While we have successfully developed MACT standards that will assure the reduction in emissions of hazardous air pollutants by nearly 1 million tons per year, we have many additional such standards to develop. By providing grant resources for the MACT partnership program, we ensure state and local agencies can participate in the development of these standards, an essential aspect of the consensus-based MACT partnership program.

EPA–STATE PARTNERSHIP OROSLR REORGANIZATION

*Question.* EPA recently announced it was closing its office of Regional Operations and State & Local Support. Responsibility for state and local relations is moved to the Intergovernmental Affairs office. How will you ensure state and local issues don't get lost among Congressional relations responsibilities?

Answer. EPA is not closing its Office of State and Local Relations. The functions performed by this office are vital to the Agency. The Agency is combining the Office of State/Local Relations with the Office of Congressional Affairs. A senior level political appointee will head the state and local relation functions. The Associate Administrator for Intergovernmental Relations—the most senior person with responsibility for state and local relations—will report directly to the Administrator. We expect these changes to improve the relationships between EPA, the states, and local officials and we fully intend to actively solicit and consult our state partners.

EPA–STATE PARTNERSHIP NEPPS

*Question.* In the past two years, EPA has been working with states to implement a new National Environmental Performance Partnership System, in which states are to be assessed based on their performance, not on how many permits they issue or reports they write. In order to implement NEPPS successfully, states need to shift resources to the development of environmental indicators.

To what extent has EPA allowed states to "disinvest" in traditional activities such as reporting requirements in order to redirect resources to the environmental indicators development?

Answer. All of the Agency's Media offices have been encouraged to develop environmental core measures that move away from traditional activity measures and in the direction of direct measures of environmental status/condition. The Offices of Water, Air and Radiation, Pesticides and Toxic Substances, Solid Waste and Emergency Response, and Enforcement and Compliance Assurance have completed draft core measures. The intent is for these core measures, once finalized and adopted by the Agency, to be used by EPA's regions in negotiating Performance Partnership Agreements with the states, and to give the states some idea where EPA is heading so they, in turn, can begin to develop their own core measures. Once EPA has the core measures in place—including expanded use of environmental indicators—more traditional reporting requirements will be significantly reduced.

For example, the Office of Water has developed a set of 18 environmental indicators designed to measure surface water and drinking water quality nationally. Nine of these indicators are also on the list of eleven core measures being developed by the Office of Water. In piloting some of these environmental indicators with states, the Office of Water agreed in some cases to reduce other reporting requirements to free up state resources needed to work on the new approach. As more of the core measures get implemented, and more states start switching to the new approach, EPA can begin eliminating older reporting requirements that have been replaced and/or are no longer needed.

To specifically address state reporting requirements, in December of 1996, EPA convened the State Reporting Requirements Reduction Workgroup, co-chaired by Michael O'Connor, Commissioner of the Indiana Department of Environmental Management; Bob Perciasepe, EPA Assistant Administrator for Water; and Mike McCabe, Regional Administrator of EPA's Region 3. Nine states are represented on the workgroup: Colorado, Delaware, Indiana, Maryland, Massachusetts, Missouri, New Jersey, Oklahoma, and Utah. So far, the workgroup has met twice and heard

presentations from Massachusetts and Florida on how they have worked with EPA to reduce reporting burdens in their states. The workgroup has drafted, and is circulating for members' comment, a set of principals for guiding EPA/State decisions about what should be reported, versus what reporting can be eliminated. The workgroup hopes to finalize the principles in the next three months and turn its attention to implementing them in the fiscal year 1998 National Environmental Performance Partnership System agreements. In one example of reductions already achieved, the State of Florida and EPA Region 4 reported reducing Florida's solid waste and superfund reporting requirements by 50 percent in the process of negotiating Florida's fiscal year 1997 Performance Partnership Agreement. Other examples are being collected by the workgroup.

EPA–STATE PARTNERSHIP ENVIRONMENTAL GOALS

*Question.* Have differences arisen between state and EPA environmental goals? If so, how have they been resolved?

Answer. At this time we know of no significant differences between EPA and state environmental goals. Most of the differences are in the approach or program strategy to be used, rather than in disagreement with environmental goals. The negotiation of Performance Partnership Agreements resolves differences through joint planning and priority-setting by state and EPA regional officials, taking into account national environmental goals, program guidance and individual performance measures, regional and state analyses of environmental status and trends, and program performance. Each EPA Regional Administrator is charged with working with National Program Managers and state environmental officials to "harmonize" state and national objectives in the Performance Partnership Agreements. States are also expected to involve stakeholders in the discussion of environmental goals and priorities.

EPA–STATE PARTNERSHIP NEPPS EFFICIENCIES

*Question.* Are anticipated costs and other efficiencies being realized in the new performance partnership grants?

Answer. Since we have not yet completed the first full fiscal year of implementing Performance Partnership Grants (PPG's), we do not have much information about efficiencies realized thus far. As a fundamentally new approach to state grants and state-EPA relations, many procedural and policy issues emerged during this first year that had to be resolved. Nonetheless, we made remarkable progress putting PPG's in place. As of April 1, 1997, EPA had awarded one or more fiscal year 1997 PPG's to 33 different states; 21 PPG's went to environmental agencies, 2 to health agencies, and 13 to agricultural agencies.

Although difficult to quantify, all state agencies with PPG's should be realizing at least some administrative savings. They can now submit a single grant application combining several programs and are no longer required to account separately for multiple grants.

The other PPG's are also funding more integrated environmental protection efforts, involving joint state-EPA goal and priority setting based on environmental conditions, strategies that address the most pressing problems, and negotiated performance measures. Only a few modest resource shifts were made this year. Many state and EPA officials found the process more difficult than negotiating traditional grants. However, most believe the benefits of this more comprehensive and flexible approach are worth the effort and expect PPG's to be easier in the future.

EPA–STATE PARTNERSHIP CORE PERFORMANCE MEASURES

*Question.* What is the status of the development of core performance measures under NEPPS?

Answer. EPA and the states, working together, have defined for each media program—air, water, waste, toxics, and enforcement—a set of core performance measures to be used by the regions and the states in negotiating Performance Partnership Agreements. Core performance measures are the principle long-term gauge of state and national progress in protecting human health and the environment. These measures, supplemented by other data routinely reported by the states, provide the "performance" element in the Performance Partnership Agreements. EPA and state environmental officials have jointly developed a framework and a set of definitions for core performance measures which are compatible with GPRA, and the National Environmental Goals Report. Each media office has proposed a set of core measures which track with their program goals and objectives, and are consistent with the framework and definitions. EPA and the states will continue to further refine these measures together, moving towards expanded use of environmental indicators. The

framework, definitions, and examples of the measures are publicly available via EPA's home page.

EPA-STATE PARTNERSHIP NEPPS MANAGEMENT

*Question*. Given the dissolution of the Office of Regional Operations and State & Local Support, who will be responsible for managing NEPPS?

Answer. EPA is currently evaluating options for how the National Environmental Performance Partnership System (NEPPS) will be managed. EPA believes that NEPPS is a crucial reinvention program that will strengthen the state-EPA partnership. A final decision about organizational placement will be made in the next few months.

PLANNING, BUDGETING, AND ACCOUNTABILITY (PBA)

*Question*. Can you point to some specific examples of how it [the proposed planning, budgeting, and accountability system] impacted the 1998 budget? Did it result in a risk-based reprioritization of activities across the agency, and disinvestments in low priority activities?

Answer. EPA is engaged in a far-reaching effort to fundamentally change past approaches to planning, budgeting, performance measurement, and accountability. Our goal is to make better use of scientific information in setting priorities, improve the link between long-term environmental planning and resource management, and implement a new accountability system to assess accomplishments and provide feedback for future decisions. This effort will take several years to be fully in place.

In fiscal year 1998, EPA expanded its GPRA pilot programs designed to bring together environmental goals and specific desired outcomes. These programs also serve as the prelude to full implementation of goal-based budgeting, complete with analytic criteria (including risk) and accountability measures, for fiscal year 1999. Together with a strategic plan and an annual performance plan, the Agency will submit a budget for fiscal year 1999 incorporating the principles and spirit of the GPRA.

In fiscal year 1999, risk-based criteria, statutorily mandated tasks, and improved efficiency in government performance will be the bases for reprioritization of activities across the Agency. EPA will learn from its fiscal year 1997–98 GPRA pilot programs the best approaches to evaluating the work we do, providing resources, and measuring the results.

PBA AFFECT ON FUNDING DECISIONS

*Question*. How does the agency's decision to increase the Superfund program by 50 percent and the Climate Change Action Plan programs by 73 percent reflect the budget discipline which was supposed to be imposed by the new planning, budgeting, and accountability system? Don't dollars spent in Superfund provide relatively little opportunity for risk reduction, compared to other EPA programs?

Answer. EPA continues to make fundamental changes to planning, budgeting, performance measurement, and accountability. As the Agency fully integrates these changes into the budget process over the next several years, decisions will be based on priorities at the highest risk areas and at the highest areas of need. The fiscal year 1998 budget does begin to implement the need for a more risk-based and need-based budget through the support of the Superfund program and the Climate Change Action Plan programs.

Superfund sites pose a risk to human health and the environment and additional funding for the Superfund program offers the opportunity to address the direct risk for those individuals who live close to a site. These risks include concerns about exposures from multiple pathways, multiple chemicals, and non-cancer risks. By increasing funds for Superfund, the budget supports the commitment to clean up sites for the one in four Americans who live within four miles of a Superfund site.

PBA STATUS

*Question*. GAO, in testimony submitted for today's hearing record, found that the overall framework for the new [Planning, Budgeting, and Accountability] system has been developed, but critical details are missing, such as the Integrated Risk Project to rank the relative risk of environmental problems. When will these missing elements be in place?

Answer. The Agency is currently evaluating various approaches to incorporate relative risk analyses into our strategic planning process. There are several activities underway, including the Integrated Risk Project of the EPA Science Advisory Board (SAB). However, it is not yet possible to incorporate any results from the SAB's

project as there is not yet an available public draft of their efforts. The Agency, however, does plan to consider the methods and results of the Integrated Risk Project to incorporate into future year planning processes. Currently, the Agency is using some very preliminary relative risk analyses as a first step in this initial strategic planning process. The nature and amount of risk information that is available varies by program area. Over time, we plan to continuously improve this information and revise our strategic plans accordingly.

PBA SCIENTIFIC AND ENVIRONMENTAL DATA

*Question.* GAO also found that EPA faces long-term challenges to obtain the scientific and environmental data needed to fully support the new systems. What are EPA's plans to address this issue?

Answer. EPA is committed to developing results oriented performance measures that will provide relevant information to the public on protection of public health and the environment. EPA plans to address the long-term challenges to obtain the scientific and environmental data by identifying the most important data gaps associated with its strategic objectives and to invest as needed in gathering and/or analyzing data required to fill these gaps. Each program office is expected to invest adequate resources to do this. However, there may be crosscutting areas where data needs can be met by Agency-wide efforts to gather and analyze data. EPA is very conscious of the cost of developing environmental outcome information and the reporting burden it places on EPA and potentially our partners. Thus, the Agency will emphasize using existing data collected by EPA, other Federal agencies and the States to measure the effectiveness of our program activities. We will seek to acquire new data and information only when it is critically needed to measure program effectiveness; in so doing, we will consult with State, Tribal and local governments, as well as the regulated community, to identify and collect data in the most efficient manner possible.

CENTER FOR ENVIRONMENTAL INFORMATION AND STATISTICS (CEIS)

*Question.* EPA recently announced the creation of a center for environmental information and statistics. This comes in response to NAPA's recommendations. NAPA found a lack of adequate, high quality data on environmental conditions and the need for an independent office to analyze and disseminate such data. NAPA recommended such a center conduct a comprehensive assessment to determine what types of information EPA needs to make good policy decisions, and to identify what types of information EPA no longer needs to collect.

Answer. EPA agreed with the NAPA findings concerning weaknesses in the Agency's environmental data quality, and with the NAPA recommendation to create a CEIS.

CEIS STRATEGY

*Question.* What is EPA's strategy for the proposed new center, when will the comprehensive assessment NAPA recommended be conducted, and how will you ensure that the need for better, more reliable data does not result in increased reporting burdens on states and the regulated community?

Answer. The strategy for CEIS operation during the remainder of fiscal year 1997 is to focus on an ambitious, but achievable agenda using budget resources redirected from OPPE environmental information and statistics functions, and to a lesser extent, from certain OARM data management functions and other parts of EPA. The early CEIS agenda will include a few, key products that define and illustrate the CEIS role. Examples include:

—An integrated, multimedia state of the environment report, addressing environmental issues for which EPA has, or shares lead federal responsibility and aimed at EPA's historical audiences for information on environmental quality, status and trends; and

—A comprehensive assessment of the environmental information needs of EPA audiences to identify priorities for improving data quality, integration and access.

The CEIS environmental information needs assessment will also aid in identifying low priority data collections that become subject to burden reduction activities under the Agency's BRITE (Burden Reduction Information Technology Executive task force) program. The AA for OPPE, working with the CIO, has lead Agency responsibilities for both CEIS needs assessment and BRITE, thus ensuring close coordination between the two programs.

CEIS APOLITICAL USES

*Question*. NAPA said the center "should be free of political interference, and should not participate in political advocacy or regulatory activities." Yet the agency has indicated the center will be used to help implement the President's Right-to-Know initiative—clearly a very political initiative created at the political levels of EPA with the White House. Can you assure us the Center will not be used for political purposes?

Answer. EPA strongly believes that to be successful, both the CEIS and EMPACT must earn reputations as objective, reliable environmental information sources, known for the clear presentation of environmental information, as well as for fair and balanced interpretation and analysis. The purpose of the President's Right-to-Know initiative, known as EMPACT (Environmental Monitoring for Public Access and Community Tracking), is to work with at least 75 major, U.S. urban areas to provide the public with more timely and accessible, environmental monitoring information. The motivation for EMPACT is to improve the science and effectiveness of environmental monitoring. EPA has also explicitly stated that the objectives for the program include making environmental data understandable and promoting fair and unbiased data interpretation. EPA will use peer review of products and balanced stakeholder involvement in implementing both CEIS and EMPACT to ensure the credibility of the environmental information they make available.

CEIS ORGANIZATIONAL LOCATION

*Question*. Why is the Center under the control of the Policy Office, rather than the Chief Information Officer, as recommended by NACEPT in its report on managing information resources?

Answer. The CEIS will enhance EPA's presentation of environmental information mainly by providing comprehensive, multimedia analysis and interpretation of environmental quality, status and trends. OPPE is the natural placement for CEIS by virtue of its long history as EPA's office for multimedia analysis. Because the CEIS will rely heavily on the CIO for the information technology and infrastructure necessary to integrate and manage environmental data, the CEIS will function as an OPPE/CIO partnership, with the CEIS located in OPPE to advance its important, substantive analytical role.

CEIS NACEPT REPORT RECOMMENDATION

*Question*. NACEPT stated that "integrated information—the strategic tool for the Agency's new place-based approach—will not be available unless one individual in the Agency is charged with managing information resources as their sole responsibility". Why hasn't EPA followed NACEPT's recommendation that the CIO be charged solely with information resources management?

Answer. Long before the passage of the Information Technology Management Reform Act, EPA named a Chief Information Officer to perform enterprise-wide information management responsibilities. With the passage of the new law, EPA has heightened the importance of the Chief Information Officer by vesting in this position the full authorities of the new law. The Chief Information Officer has sole responsibility for the Agency's information management planning process, Strategic Plan, policy formulation, and architecture. The CIO's authority has been further strengthened with responsibilities for investment planning and for reengineering review imposed by the new law.

Within the parameters of this centralized authority, the Chief Information Officer relies on senior officials in EPA's program and regional offices to develop and implement information management programs in support of their environmental statutes and regulations. This centralized/decentralized operating framework has traditionally worked well in EPA because it yields centralized authority on policy and infrastructure requirements, while allowing day-to-day responsibilities for data systems and management to occur at operational levels more closely associated with the nature of the environmental program.

EPA is highly sensitive to the need for more integrated environmental information highlighted by the NACEPT committee, and its Chief Information Officer is leading a number of efforts to evaluate and improve the Agency's ability to deliver integrated information. The CIO's authority is enhanced by the Agency's Executive Steering Committee for IRM, which serves as the Chief Information Officer's board of directors for agencywide information management directions, cross-media efforts, and IRM investment planning. The Executive Steering Committee is composed of the senior officials in each of EPA's program offices, along with representatives from our regional offices and state environmental agencies. EPA's place-based and com-

munity-based efforts are overseen by the Executive Steering Committee, under the direction of the CIO. Thus, EPA is moving forward with a clear effort and management framework for meeting the integrated information needs identified by NACEPT.

CEIS BUDGET REQUEST

*Question.* What is the budget request for the Center in fiscal year 1998? When will a center director be named?

Answer. Because the decision to create the CEIS was made after the fiscal year 1998 President's budget was submitted to Congress, EPA's budget did not include a specific CEIS budget request. The fiscal year 1998 resource needs for CEIS will be addressed as the Agency works with Congress to develop EPA's fiscal year 1998 operating plan. EPA will seek to fund CEIS by redirecting OPPE base resources, and, to a lesser extent, by redirecting resources from OARM and other parts of the Agency. Some of the Agency resources redirected to CEIS will include a portion of those funding EMPACT, to support the important CEIS role in the EMPACT program. EPA will name a CEIS director before the CEIS organization plan is finalized in late spring.

PBA PROGRAM EVALUATION

*Question.* NAPA found that EPA has no systematic way of performing program evaluations to determine whether programs are accomplishing their stated goals and objectives. Without this information, it is difficult to make rational, informed budget decisions. What has EPA done to establish centralized, routine, systematic program evaluation as part of the budget process?

Answer. EPA is currently developing a new process to substantially change the way the Agency makes decisions with regard to planning and budgeting. This process is driven by a set of environmental goals and results-oriented environmental outcomes that are associated with these goals. The process integrates the Agency's planning and budgeting processes and establishes a program performance evaluation and accountability system that will ensure compliance with the Government Performance and Results Act. At the foundation of this planning-budgeting-accountability process will be clearly identifiable links between the Agency's goals; objectives for achieving those goals; performance measures to assess progress in meeting objectives; activities designed to attain desired environmental outcomes; and resources used in support of those activities. EPA has formalized these links by creating the Office of Planning, Analysis and Accountability (OPAA) within the Office of the Chief Financial Officer.

Two primary responsibilities of OPAA are the development of an Agency-wide Strategic Plan that incorporates the goals and objectives we have identified as essential in achieving desired outcomes, and an accountability system that will enable us to evaluate program performance and related costs in terms of goals and objectives. This will be done systematically by focusing on accomplishments relative to the commitments made in annual performance plans, which will constitute the body of Agency budget submissions. Annual performance reports will evaluate environmental and managerial results and relate them to resources expended, and the results will support future decision-making on program direction and budgets. In the future, this system is intended to integrate other ongoing evaluation efforts, including regular internal program assessments, Federal Managers' Financial Integrity Act monitoring and reporting, and Agency financial statements, to provide comprehensive information for management.

PROJECT XL AND COMMON SENSE INITIATIVE

*Question.* How will the new Office of Reinvention EPA recently established improve the effectiveness of Project XL and the Common Sense Initiative? What specific changes do you envision?

Answer. The Office of Reinvention (OR) will enhance the effectiveness of Project XL (XL) and the Common Sense Initiative (CSI) within EPA in four ways:

First, we expect the reorganization to improve the ability of the Agency to coordinate across the reinvention programs and ensure that resources are used in the most efficient and effective manner possible.

Second, the true purpose of reinvention is to implement new approaches to environmental protection. While XL and CSI are different in their approach to reinvention, common ideas and themes will continue to emerge. OR will track these ideas, look for the best opportunities to test and refine them in reinvention programs, and work to incorporate them into Agency regulatory or policy decisions. The "lessons learned" will be shared among the reinvention programs.

Third, establishment of OR will improve the Agency's ability to make operational and policy decisions that move the XL and CSI programs forward. As programs with significant implications that cut across Agency divisions, XL and CSI repeatedly face the difficult task of facilitating cross-agency decision making on an ad hoc basis. OR will provide structure and authority to cross-agency actions on reinvention programs.

Fourth, OR will be involved with other Agency reinvention efforts such as the Environmental Leadership Program and the One-Stop Reporting Program. The office will be able to bring the experiences and successes of these efforts to XL and CSI to foster continuous improvement.

PROJECT XL AND CSI ALTERNATIVE COMPLIANCE LEGISLATION

*Question.* After the problems you have encountered with Project XL, why do you not agree that alternative compliance legislation is needed?

Answer. GEMI's critique stated that successful reinvention programs had common characteristics of clear goals developed with input from direct participants, the provision of significant flexibility in how to achieve set ends, and trust among participants. They go on to state that without statutory provisions, initiatives take a lower priority, and require consensus-based decisions to be effective. GEMI suggests that having statutory authority would remedy the lack of these characteristics in XL and CSI, and would overcome the weak incentives and risks of litigation of these two reinvention initiatives.

EPA disagrees that legislative action would serve to remedy the majority of criticisms that have been directed at Project XL or CSI. These criticisms not easily resolved by legislation. Most suggestions can be implemented without legislation and some may evolve and change as our learning in these areas expands. While the characteristics of clear, shared goals, flexibility to achieve set ends, and trust are important if reinvention programs are to be successful, legislation is not required to accomplish any of those criteria.

Both XL and CSI are undergoing substantial efforts currently to redefine program objectives and goals, with substantial input from stakeholders of all types. As these dialogues continue, a greater level of support and an understanding of the expected outcomes of these programs is developing. This is an ongoing, dynamic process; one that is necessary at the program level regardless of statutory authority. EPA has found there is substantial room for flexibility within the existing framework of our legal authorities.

It is important to recognize that Project XL is not intended to be an alternative compliance system; rather it is a laboratory within which we can test new approaches to environmental protection, which if successful can be used to change and improve our current system. EPA has not believed it needed separate statutory authority to run a pilot program of temporary duration (50 projects). Our experience with XL to date is that we have been able to test the concepts proposed by project sponsors and still remain within our statutory authorities. Using our existing statutory framework has important advantages.

—First, it engages the very staff that wrote the rules that are being challenged in thinking about new ways of doing business. This is the most effective way to accomplish one of the biggest goals of reinvention—cultural change. Clearly, the Administrator has established XL and CSI as Agency priorities. But it is the rethinking of the traditional approaches as rules and policies get developed where cultural change and staff buy-in actually happen.

—Secondly, by conducting pilot projects within the confines of existing statutory authorities, it is easier to transfer the successful ideas out of the reinvention programs into that existing current system in a way that is acceptable to states, industry, and stakeholders.

Finally, EPA agrees that there is a need to better articulate and develop incentives for participation of project sponsors in XL. However, EPA questions the need for legislation to provide those incentives. EPA will actively be exploring ideas on ways to provide clear benefits to those who are willing to provide leadership and make the investments necessary to pilot change in the way we do business.

PROJECT XL AND CSI PRESIDENTIAL COMMISSIONS RECOMMENDATIONS

*Question.* How will EPA see that the recommendations of these Presidential Commissions are implemented?

Answer. EPA is establishing a new Office of Reinvention which will be responsible for managing changes to traditional regulatory approaches. This new office, under the leadership of an Associate Administrator, will be responsible for ensuring follow-up to the many policy recommendations from the President's Council on Sustainable

Development, Presidential/Congressional Commission on Risk Assessment and Risk Management, and other groups. Much of the specific follow-up work will be done by the line operating programs in the Agency, and it will be the job of the Office of Reinvention to provide overall direction and coordination across the Agency.

PROJECT XL AND CSI GLOBAL ENVIRONMENTAL MANAGEMENT

*Question*. According to a report by the Global Environmental Management Initiative, called "Industry Incentives for Environmental Improvement: Evaluation of U.S. Federal Initiatives," EPA's voluntary programs have not been terribly effective. GEMI looked at CSI, Project XL, the 33–50 program, and the sulfur dioxide emissions trading program. With the exception of emissions trading, GEMI found these programs "do not address most of the important problems with the pollution control system nor do they appear to contribute significantly to improving environmental quality or safety." What implications do these findings have for Project XL and CSI?

Answer. Project XL and the Common Sense Initiative (CSI) were created in recognition that there are many visions for a future system of environmental protection, and that different approaches for exploring these visions make sense. EPA did not identify specific innovations or outcomes from these reinvention programs, choosing instead to allow sponsors and sectors the freedom to suggest their own ideas. It was reasoned that industry, along with stakeholders, would know where the biggest problems in our current system lie. The GEMI report voices a criticism of this approach, advocating that EPA take a more aggressive approach in directing these programs.

In Project XL, there still exists an open invitation for project proposals, with specific emphases on innovative technology and pollution prevention. EPA has, however, been working with environmental policy opinion leaders from states, industry, and environmental NGO's to strategically identify the types of XL projects that will help us achieve the desired environmental protection system of the future.

CSI has almost 40 projects in the six participating industrial sectors. These projects, which have been identified by the external stakeholders, run the gamut from alternative regulatory systems, permitting reform, community outreach, and pollution prevention to reporting reforms and technical assistance. CSI continues to rely upon the external stakeholders on each sector subcommittee to establish goals to help direct the efforts of their industrial sector. The CSI Council works with the sector subcommittees to assure that the individual sector goals support the vision of the Common Sense Initiative—cleaner, cheaper, smarter solutions to environmental management.

EPA is confident that individual XL and CSI projects currently being implemented and under development do contribute to improving environmental quality and safety both by producing superior environmental performance and by testing new approaches to environmental protection.

PROJECT XL AND CSI GEMI REPORT

*Question*. GEMI said "It is difficult to make any non-statutory program work" and, "there is no short-cut, no way around the difficult task of trying to legislate a better system." Has the report influenced your views as to the need to legislate an alternative compliance system?

Answer. GEMI's critique stated that successful reinvention programs had common characteristics of clear goals developed with input from direct participants, the provision of significant flexibility in how to achieve set ends, and trust among participants. They go on to state that without statutory provisions, initiatives take a lower priority, and require consensus-based decisions to be effective. GEMI suggests that having statutory authority would remedy the lack of these characteristics in XL and CSI, and would overcome the weak incentives and risks of litigation of these two reinvention initiatives.

EPA disagrees that legislative action would serve to remedy the majority of criticisms that have been directed at Project XL or CSI. These criticisms not easily resolved by legislation. Most suggestions can be implemented without legislation and some may evolve and change as our learning in these areas expands. While the characteristics of clear, shared goals, flexibility to achieve set ends, and trust are important if reinvention programs are to be successful, legislation is not required to accomplish any of those criteria.

Both XL and CSI are undergoing substantial efforts currently to redefine program objectives and goals, with substantial input from stakeholders of all types. As these dialogues continue, a greater level of support and an understanding of the expected outcomes of these programs is developing. This is an ongoing, dynamic process; one that is necessary at the program level regardless of statutory authority. EPA has

found there is substantial room for flexibility within the existing framework of our legal authorities.

It is important to recognize that Project XL is not intended to be an alternative compliance system; rather it is a laboratory within which we can test new approaches to environmental protection, which if successful can be used to change and improve our current system. EPA has not believed it needed separate statutory authority to run a pilot program of temporary duration (50 projects). Our experience with XL to date is that we have been able to test the concepts proposed by project sponsors and still remain within our statutory authorities. Using our existing statutory framework has important advantages.

—First, it engages the very staff that wrote the rules that are being challenged in thinking about new ways of doing business. This is the most effective way to accomplish one of the biggest goals of reinvention—cultural change. Clearly, the Administrator has established XL and CSI as Agency priorities. But it is the rethinking of the traditional approaches as rules and policies get developed where cultural change and staff buy-in actually happen.

—Secondly, by conducting pilot projects within the confines of existing statutory authorities, it is easier to transfer the successful ideas out of the reinvention programs into that existing current system in a way that is acceptable to states, industry, and stakeholders.

Finally, EPA agrees that there is a need to better articulate and develop incentives for participation of project sponsors in XL. However, EPA questions the need for legislation to provide those incentives. EPA will actively be exploring ideas on ways to provide clear benefits to those who are willing to provide leadership and make the investments necessary to pilot change in the way we do business.

STATUTORY INTEGRATION

*Question.* About two years ago, this Committee directed EPA to examine options for better integrating its statutory authorities. In response, EPA established a team to explore options for bringing about integration. Yet following the establishment of the Enterprise for the Environment Initiative, EPA decided "E4E" would serve as the vehicle for fulfilling this Committee's request for analysis of statutory integration. This is not what we intended. When will EPA report to the Committee on the findings of its statutory integration task force?

Answer. The rationale for having E4E serve as the vehicle for fulfilling the Committee's request on statutory integration was that it will be more fruitful to discuss integration of authorities in the broader context of policy changes being considered by E4E, rather than have EPA's work on statutory integration stand in isolation from, or appear to be in competition with, E4E's related work. To do otherwise would run counter to the Committee's request that the Agency coordinate with and provide support to E4E, in addition to using it for additional stakeholder input on improving our programs and authorities. We would be happy to brief Committee staff on our work on statutory integration, either before release of the final E4E report, or after Committee staff have reviewed the E4E product.

GREEN PROGRAMS

*Question.* EPA's budget request includes a 73 percent increase for the Climate Change Action Plan—the so-called "green programs"—for a total of $149 million. The Green Lights program would more than double to $52 million. The Green Lights program has been in existence for about 6 years and there are now over 2,300 partners. The purpose of the program is to promote the use of energy efficient lighting technologies. At what point will EPA begin proposing a phase out of this program due to "market saturation"?

Answer. The current budget cuts have limited the Agency's ability to achieve its goal of overcoming the barriers in the marketplace that will allow the markets themselves to provide greater energy efficiency and reduce pollution. Because the funding cuts are hindering EPA in its ability to achieve these market transformation goals, the cuts are also postponing the point at which EPA will be able to reduce funding for the programs. The timing of phasing out of all CCAP programs, including Green Lights, will depend in large part on whether or not full funding levels are restored in the near term.

The Green Lights program has been extremely successful at increasing energy savings and pollution prevention, in spite of reduced funding. The attached chart shows the rapid increase in annual pollution prevention from the program over time. These program results are based on detailed reporting from partners on completed projects. As can be seen in the chart, the program is gaining momentum as its pollution prevention achievements climb rapidly. This is because, even though

the program is successful, there remains a large untapped potential. The 6 billion square feet of floorspace owned by the program's 2,300 partners represents only 7 percent of total U.S. commercial and industrial floorspace. Although partners are already preventing over 5 billion pounds of carbon dioxide emissions every year, significant opportunity remains.

In addition, EPA's commitment does not end with recruiting partners. In fact, that is just the beginning of affecting real change. In the Memorandum of Understanding between EPA and its partners, the Agency agrees to provide technical support as the partners fulfill their commitments within 5 years of signing. The Agency considers its growing reputation as a dependable source of unbiased information to be an essential component of the program's current and future success.

EPA is currently tracking energy efficient lighting product markets to assist with overall monitoring and evaluation of the Green Lights program. The Agency is developing a plan to identify criteria by which decisions can be made for determining the proper exit strategy from the market. This is consistent with recommendations in a 1997 Office of the Inspector General (OIG) report.[1] For the CCAP partnership programs that were evaluated, the OIG found that the Agency was demonstrating "good management practices," including good planning, progress evaluation, and program adjustment (p. 11). The OIG also recommended that management develop plans for evaluating market transformation and determining when resources should be reduced for individual programs (p. 31).

It should be noted that a significant portion of the increased funding (i.e., the referenced $52 million) is targeted for the Energy Star Buildings program (CCAP Action #1). Launched in 1995, this important program builds on the success the Green Lights program has had in developing solid partnerships and establishing EPA's credibility within the private sector. Beyond lighting, the Energy Star Buildings program engages partners in a more aggressive and challenging agreement to improve total energy performance throughout buildings. This can provide significant pollution prevention benefits. In fact, the energy used in U.S. commercial and industrial buildings is responsible for as much carbon dioxide emissions as all of the cars, light trucks, jeeps, and minivans in the U.S. today. Energy Star Buildings partners can cost-effectively eliminate about one-third of their energy use and pollution.

Providing full funding of the CCAP at this time will allow the buildings programs to expand their partnerships in line with original expectations. With the additional funding, the Green Lights and Energy Star Buildings programs will (1) increase recruiting by 100 percent (focussing on a broader range of sector specific opportunities), (2) enhance customer support by 100 percent for existing partners so that they can perform better upgrades more quickly, (3) enhance outreach on the environmental and economic benefits of improved building technologies, (4) provide technical information on a broader set of newer technologies of interest to State and Local governments such as high efficiency traffic signals, (5) complete more comprehensive program evaluation efforts, and (6) develop the foundations for including the design and construction of new commercial buildings within the programs.

*Question.* What is the long-term strategy for the green programs?

Answer. Over 2,500 of the world's best climate scientists recently concluded that the threat of global warming must be taken seriously. More than 2,400 economists endorse the U.S. taking action to slow climate change.

—The Intergovernmental Panel on Climate Change (IPCC), drawing on the work of more than 2,500 scientists, concluded in 1995 that global temperatures are expected to rise 2 to 6 degrees Fahrenheit in the next century, and that "the balance of the evidence suggests a discernible human influence on global climate" that is already apparent.

—The IPCC concluded that greenhouse gas emissions can be reduced by as much as 30 percent from anticipated future levels by more fully using cost-effective technologies.

—More than 2,400 economists (including eight Nobel prize winners) agreed, saying in a statement this year that: "There are many potential policies to reduce greenhouse gas emissions for which the total benefits outweigh the total costs." These measures, they said, "would slow climate change without harming American living standards" and "may, in fact, improve U.S. productivity in the longer run." (Statement attached).

The recent scientific evidence and the endorsement by over 2,400 economists that many cost-effective policies exist to reduce greenhouse gasses makes fully funding the Climate Change Action Plan programs more compelling than ever before because, the CCAP programs are beginning to do precisely what these experts call for.

---

[1] EPA Office of the Inspector General, "Risk Reduction Through Voluntary Programs," Audit Report No. E1KAF6–05–0080–7100130, 3/19/97.

By providing information, helping establish markets for new technologies, and promoting new arrangements for private financing, the CCAP programs are accelerating the adoption of this money-saving and pollution-preventing technology by large and small American businesses, schools, hospitals and other non-profits, and homeowners and consumers.

Recent research at leading centers for economic research demonstrates that these programs are highly effective. In 1996, a study by Resources for the Future concluded that, in addition to prices, the Green Lights program makes a "significant contribution to the diffusion of high efficiency lighting in commercial office buildings* * *."[2] Also in 1996, a study by Stephen DeCanio of the Department of Economics at the University of California at Santa Barbara concluded that: "By speeding the dissemination of information about energy-saving technologies, programs such as Green Lights can offer win-win benefits to taxpayers, consumers, and shareholders."[3] Nevertheless, the programs are being restrained by funding cuts that have limited their effectiveness.

Rapid deployment of this energy-efficiency technology will be even more critical in the future. The U.S. and many other countries will meet in December 1997 to discuss the next phase of actions under the Framework Convention on Climate Change. Reflecting the recent scientific evidence on climate change risks, and because current non-binding approaches under the Convention are not working to fully accomplish their goals, more than 100 nations agreed last year that the new agreement should move from non-binding emissions goals to legally-binding emissions targets. The U.S. position is that binding emissions obligations must be set at realistic and achievable levels, with adequate lead time and flexible implementation tools (emissions budgets, banking and borrowing, international emissions trading, and joint implementation). The U.S. position also includes commitments by developing nations, culminating in binding emissions targets for all nations.

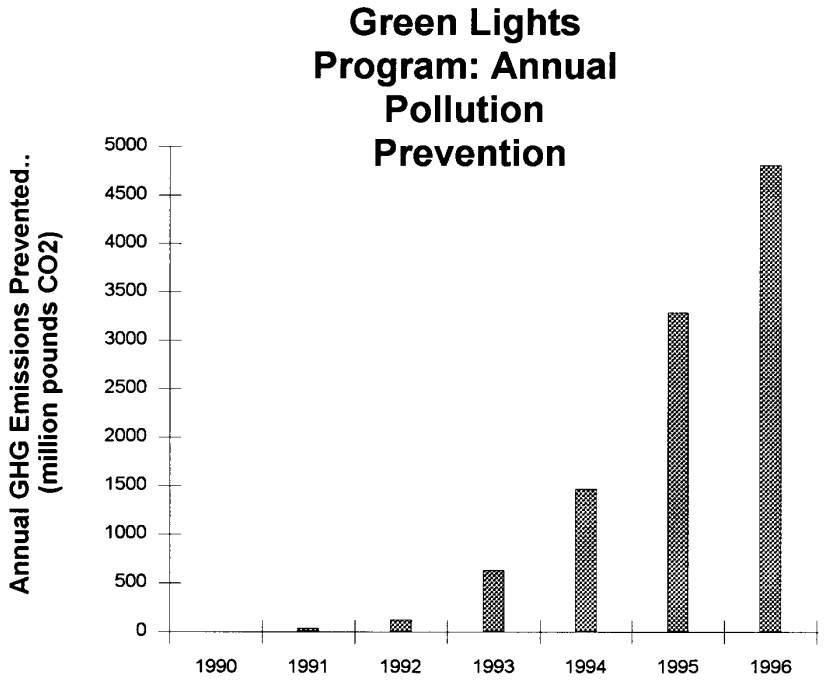
If binding emissions targets are adopted in December 1997, rapid deployment of the currently available, money-saving technology to produce and use energy more efficiently will be more important than ever. It will be one of the keys to meeting these targets at the lowest possible cost for the private sector and the U.S. economy as a whole.

Restoring Climate Change Action Plan funding to the President's request will allow EPA to fully implement its programs to achieve the highest possible rate of adoption of these technologies by American firms, non-profit institutions, and individual consumers. But if funding for the CCAP programs remains at reduced levels, many of these technologies will remain on the shelf or be adopted by only a fraction of the potential users. Consumers energy bills and other costs will be unnecessarily high. The productivity and competitive position of U.S. businesses will suffer. Americans will lose far more as investors, employees, and consumers than these programs cost.

---

[2] Morgenstern, Resources for the Future, "Does the Provision of Free Technical Information Really Influence Firm Behavior?" 5/96.

[3] DeCanio and Watkins, UCSB Department of Economics, "Investment in Energy Efficiency: Do the Characteristics of Firms Matter?" 7/96.




ENFORCEMENT

*Question.* Despite all the rhetoric about the supposed inadequacy of EPA's enforcement budget in fiscal year 1996, in the operating plan EPA actually proposed reprogramming $4 million out of the fiscal year 1996 enforcement budget. Why did EPA cut enforcement? Couldn't the carryover have been reprogrammed into other enforcement activities?

Answer. In fiscal year 1996 EPA did not cut Enforcement. The resource levels provided in the original fiscal year 1996 Operating Plan fully funded projected Enforcement FTE. The hiring, promotion and bonus freezes, implemented during the fiscal year 1996 appropriation process, held on-board levels and personnel compensation and benefits costs below levels projected in the Operating Plan. The Enforcement program is especially sensitive to these personnel factors given that almost 75 percent of the program's budget within the Environmental Programs and Management appropriation is payroll.

Once the freezes were lifted, the Enforcement program began to hire additional personnel in areas such as criminal investigation and data systems support. However despite this activity, actual on-board levels remained below levels provided in the fiscal year 1996 Operating Plan.

However, in fiscal year 1997 the Agency fully funded the Enacted Operating Plan level of Enforcement FTE. Despite the many uncertainties faced in the previous year, the Enforcement program was able to accomplish its goals and objectives in fiscal year 1996 without the reprogramming of carryover funds.

ENFORCEMENT: RECORD ENFORCEMENT ACTIONS

*Question.* According to a February press release, EPA had a record number of criminal enforcement actions in 1996, despite claiming that the "environmental cop was off the beat." How did EPA manage to have record numbers of criminal enforcement actions in fiscal year 1996?

Answer. During fiscal year 1996, EPA was subject to a series of continuing resolutions which placed the Agency under spending and hiring restrictions for approximately seven months, including several weeks in which the Agency was shutdown. During this time, EPA's criminal program continued to carry out its enforcement re-

sponsibilities. Criminal investigators were "essential" employees under the furlough and resources were provided for basic program operations throughout the continuing resolutions. However, efforts to open new criminal cases were limited by available travel resources. The program focused primarily on cases already in the criminal enforcement pipeline, in which "front-end" investigative activities were completed in prior years. EPA brought many of these cases to closure in fiscal year 1996, allowing the Agency to report record numbers of criminal enforcement actions despite the budget circumstances.

However, EPA staff who work in civil enforcement were more directly affected by the fiscal year 1996 budget situation. Staff who normally interact with states on enforcement issues, conduct inspections, administrative actions, and develop civil referrals, were not able to carry out their work during the furlough and their activities were significantly disrupted under the continuing resolutions.

ENFORCEMENT: COMPLIANCE ASSISTANCE PROGRAM

*Question*. While EPA's overall EPM enforcement budget would increase 7 percent to $237 million, there is no increase requested for compliance assistance. According to Agency documents:

The enforcement program recognizes that most businesses and regulated facilities want to comply with the law. Often, however, they need help with understanding environmental requirements and coming into compliance with them. This is particularly true of small businesses. The enforcement program's compliance assistance program helps the regulated community to understand and come into compliance with the law.

Why is there no increase in the relatively modest ($20 million) compliance assistance program?

Answer. In 1998 the Agency's enforcement program will continue to conduct a broad spectrum of outreach and technical assistance to the regulated community in concert with the States. By 1998 the ground work for the Enforcement's Compliance Assistance Program, such as policy and strategy development, will have been completed and the program will direct resources at implementation. Also, states are increasingly providing compliance assistance. All 50 states have a Clean Air Act State Small Business Assistance Program and many are now expanding into other media. The Enforcement program is investing additional resources in 1998 in helping the states develop their compliance assistance programs.

By 1998 the Agency will have Compliance Assistance Centers up and running for eight industry sectors. The goal is for these centers to be self-sufficient.

The compliance assistance tools that the Agency is developing for use by the industry sectors are building upon themselves. EPA is able to apply lessons learned in developing tools for one sector to another sector, producing cost savings. The Agency's approach is to complete work on a set of sectors before moving onto the next thereby efficiently utilizing the Agency's resources.

ENFORCEMENT: SBREFA FUNDING

*Question*. What specifically is requested for the additional requirements associated with the Small Business Regulatory Enforcement Fairness Act?

Answer. To support the requirements of SBREFA, the fiscal year 1998 Budget requests three workyears and two hundred thousand dollars for the Office of Policy, Planning and Evaluation (OPPE).

OPPE projects that there will be fifteen SBREFA panel processes in fiscal year 1998, which will require approximately 20 FTE in agency personnel and $125,000 in travel and $150,000 in contract support of panel requirements.

NAAQS

*Question*. Last November EPA proposed new standards for ozone and fine particles which are highly controversial. Recent press reports have stated that there were deep divisions with the administration over EPA's proposal. According to one account, OSTP Director Jack Gibbons called on EPA to delay its ozone proposal, saying EPA should look more closely at the health benefits from improving compliance with the current standard. In addition, staff memos at the Council of Economic Advisors said "the incremental health risk reduction for more stringent standards is small, while the cost are high." Treasury Department staff challenged the health benefits. And the Small Business Administration urged EPA to follow the requirements of the Small Business Regulatory Enforcement Fairness Act.

Ms. Browner, why did EPA seemingly ignore these significant concerns from within your own administration? Do you have plans to address other agencies concerns about the costs and benefits?

Answer. The Clean Air Act requires that EPA establish ambient standards based on selecting a level that protects the public health with an adequate margin of safety. While preparation of a regulatory impact analysis that includes an estimate of the costs and benefits associated with the proposed standards is part of the review process, these costs cannot be considered in the final decision on what the standard should be. EPA's decision is to be based solely on protection of public health.

In addition, as we move forward on responding to the comments received on the proposed standards and developing final standards, EPA is working with all of the other Departments and Agencies to address their issues and concerns. There are weekly meetings of an Interagency technical staff work group and of a higher level Interagency policy work group to have regular discussion of these issues. This process will continue through until the final standards are issued.

Finally, although the Agency disagrees with the SBA's interpretation of SBREFA, we are voluntarily complying with all procedures for consultation with small businesses.

NAAQS SBREFA REQUIREMENTS

*Question*. When does EPA plan to comply with the SBREFA requirements, which called for consultation with small businesses on the costs of the regulation, prior to the proposal of major rules?

Answer. As you know, SBREFA amended the Regulatory Flexibility Act (RFA) to add a requirement that EPA convene a Small Business Advocacy Review Panel for any rule that requires preparation of an initial regulatory flexibility analysis (IRFA) under section 603 of the RFA. As explained further below, EPA did not convene a panel because EPA determined that an IRFA is not required for rules like the NAAQS that do not apply to small businesses or other small entities. As the RFA's "Findings and Purposes" section (Public Law 96–354 section 2) makes clear, Congress enacted the RFA in 1980 out of concern that agencies were writing one-size-fits-all regulations that, in fact, did not fit the size and resources of small entities or their relative contribution to the problem being addressed. To change this practice, Congress required agencies, when developing a rule, to focus on the small entities that would have to comply with the rule's requirements and consider ways of easing or even waiving those requirements as they would apply to small entities. That purpose cannot be served in the case of rules like the NAAQS that do not have requirements that apply to small entities.

As a rulemaking subject to notice-and-comment rulemaking requirements, the NAAQS proposals are subject to the RFA. The RFA requires that an agency prepare an IRFA describing "the impact of the proposed rule on small entities," unless the agency certifies that the rule "will not, if promulgated, have a significant economic impact on a substantial number of small entities" (RFA sections 603(a) and 605(b)).

At the heart of whether EPA was required to convene a panel prior to proposing the NAAQS is the question of what "impact" an agency must assess for an IRFA or a certification. Is an agency supposed to assess a rule's impact on the small entities that will have to comply with the rule, or the rule's impact on small entities in general, whether or not they will be subject to the rule? In the NAAQS case, the question arises because of the Congressionally-designed mixture of Federal and State responsibilities in setting and implementing the NAAQS.

NAAQS rules establish air quality performance standards that States decide how to meet. Under section 110 of the Clean Air Act (CAA), every State develops a State implementation plan (SIP) containing the control measures that will achieve the NAAQS. States have broad discretion in the choice of control measures. In short, it is State rules, not the NAAQS themselves, that may establish control requirements applicable to small entities, depending on each State's strategy for meeting the NAAQS. See *Virginia* v. *EPA*, No. 95–1163, slip op. at 20 (D.C.Cir. March 11, 1997), quoting *Union Electric* v. *EPA*, 427 U.S. 246, 269 (1976) ("section 110 left to the states 'the power to determine which sources would be burdened by regulations and to what extent'").

To properly interpret "impact" under the RFA, EPA looked at the RFA's stated purpose, its requirements for regulatory flexibility analyses, its legislative history, the amendments made by SBREFA, and case law. All of these traditional tools of statutory construction point in one direction—that an agency need only assess the impact of a rule on the small entities that will be subject to the rule's requirements, because the purpose of a regulatory flexibility analysis is to identify what rule requirements will apply to what kinds of small entities and how those requirements may be eased or even waived for small entities, consistent with the objectives of the statute authorizing the rule. Since NAAQS rules do not establish requirements that apply to small entities, they cannot be eased or waived as they apply to small enti-

ties. They thus do not impose the kind of "impact" that the RFA was intended to address.

This interpretation of "impact" flows from the express purpose of the RFA itself. In the "Findings" section of the 1980 law enacting the RFA, Congress expressed concern that agencies were writing rules with big businesses in mind, but applying those rules uniformly to big and small businesses (Public Law 96–354, section 2(a)). Congress noted that it is generally easier for big businesses (and governments) to comply with regulations, and that small businesses are, therefore, at a competitive disadvantage in complying with one-size-fits-all rules. Congress also noted that small entities' relative contribution to the problem a rule is supposed to solve may not warrant applying the same requirements to large and small entities alike. In the RFA itself, Congress therefore stated:

"It is the purpose of this Act to establish as a principle of regulatory issuance that agencies shall endeavor, consistent with the objectives of the rule and of applicable statutes, to fit regulatory and informational requirements to the scale of the businesses, organizations, and governmental jurisdictions subject to regulation. [Public Law 96–354, section 2(b).]"

The RFA sections governing initial and final regulatory flexibility analyses reflect this statement of purpose. RFA sections 603 and 604 require that initial and final regulatory flexibility analyses identify the types and estimate the numbers of small entities "to which the proposed rule will apply" (sections 603(b)(3) and 604(a)(3)). Similarly, they require a description of the "projected reporting, record keeping and other compliance requirements of the proposed rule, including an estimate of the classes of small entities which will be subject to the requirement" (sections 603(b)(4) and 604(a)(4)). At the heart of the analyses is the requirement that agencies identify and consider "significant regulatory alternatives" that would "accomplish the stated objectives of applicable statutes and which minimize any significant economic impact of the proposed rule on small entities" (sections 603(c) and 604(a)(5)). Among the types of alternatives agencies are to consider are the establishment of different "compliance or reporting requirements or timetables" for small entities and exempting small entities "from coverage of the rule, or any part" of the rule (section 603(c)(1) and (4)). Regulatory flexibility analyses are thus to focus on how to minimize rule requirements on small entities.

Since finding that a rule will not have "a significant economic impact on a substantial number of small entities" exempts a rule from the requirement for regulatory flexibility analyses, it makes sense to interpret "impact" in light of that requirement. As described above, regulatory flexibility analyses are to assess how a rule will apply to small entities and how its requirements may be minimized with respect to small entities. In this context, "impact" is appropriately interpreted to mean the impact of a rule on the small entities subject to the rule's requirements.

The Federal courts have so held. In 1986, the United States Court of Appeals for the D.C. Circuit "conducted an extensive analysis of the RFA provisions governing when a regulatory flexibility analysis is required and concluded that no analysis is necessary when an agency determines 'that the rule will not have a significant economic impact on a substantial number of small entities that are subject to the requirements of the rule'" *United Distribution Companies* v. *FERC*, 88 F.3d 1105, 1170 (D.C. Cir. 1996) (citing and quoting *Mid-Tex Elec. Co-op* v. *FERC*, 773 F.2d 327, 342 (D.C. Cir. 1985) (emphasis added by United Distribution court)). The Mid-Tex petitioners had claimed that the RFA is intended to apply to all rules that affect small entities, whether the small entities are directly regulated or not. After reviewing the requirements for regulatory flexibility analyses, the Mid-Tex court concluded that "The relevant 'economic impact' was the impact of compliance with the proposed rule on regulated small entities. Reading section 605 [the provision exempting a rule from the regulatory flexibility analysis requirement if the agency certifies the rule will have no significant economic impact on a substantial number of small entities] in light of section 603 [the provision governing initial regulatory flexibility analyses], we conclude that an agency may properly certify * * * when it determines that the rule will not have a significant economic impact on a substantial number of small entities that are subject to the requirements of the rule." Mid-Tex,, 773 F.2d at 342."

Congress let this interpretation stand when it recently amended the RFA in enacting SBREFA. If it had disagreed with the court's decision it would have revised the relevant statutory provisions or otherwise indicated its disagreement when it enacted SBREFA. Since SBREFA's passage, the United Distribution court has reaffirmed the Mid-Tex court's interpretation.

In fact, SBREFA reinforces the conclusion that the RFA is aimed at rules that establish requirements that small entities must meet. Section 212(a) of SBREFA requires that an agency issue a "small entity compliance guide" for "each rule * * *

for which an agency is required to prepare a final regulatory flexibility analysis under section 604" of the RFA. The guide is "to assist small entities in complying with the rule" by "explain[ing] the actions a small entity is required to take to comply" with the rule (SBREFA section 212(a)). Obviously, it makes no sense to prepare a small entity compliance guide for a rule that does not apply to small entities, so SBREFA stands as further confirmation that regulatory flexibility analyses are intended to address rules that establish requirements small entities must meet.

Given the Federal/State partnership for attaining healthy air, the proposed NAAQS, if adopted, will not establish any requirements applicable to small entities. Instead, any new or revised standards will establish levels of air quality that States will achieve by adopting plans containing specific control measures for that purpose. NAAQS rulemakings are thus not susceptible to regulatory flexibility analysis as prescribed by the amended RFA. They establish no requirements applicable to small entities, and thus afford no opportunity for EPA to fashion for small entities less burdensome compliance or reporting requirements or timetables or exemptions from all or part of the rules. Moreover, since NAAQS are not applicable to small entities, there would be no point in issuing small entity compliance guides under SBREFA for them. For these reasons, EPA appropriately certified that the ozone and PM NAAQS rulemaking actions will not, if promulgated, have a significant economic impact on a substantial number of small entities within the meaning of the RFA. Since the Agency certified the proposals, it was not required to convene a panel for them.

At the same time, EPA recognizes that the proposed NAAQS standards, if promulgated, would begin a process of State implementation that could eventually lead to small entities having to comply with new or different control measures, depending on the implementation plans developed by the States. Under these circumstances, EPA believes that the best way to take account of small entity concerns regarding any new or revised NAAQS is to work with small entity representatives and States to provide information and guidance on how States can address small entity concerns when they write their implementation plans. This approach is sensible and appropriate given that the Clean Air Act does not allow EPA to dictate how States must regulate to attain any new or revised NAAQS.

In line with this approach, as part of the Regulatory Impact Analyses it prepared for the proposed NAAQS, EPA analyzed how State plans for implementing the proposed standards might affect small entities. The analyses were necessarily general and speculative, since they depended on projections about what States might do several years in the future. Nevertheless, they provide as much insight as possible at this point in the NAAQS process.

The Agency also took steps to ensure that small entities' voices are heard and considered in the NAAQS rulemakings themselves. With Jere Glover, Chief Counsel for Advocacy of the Small Business Administration (SBA), we convened outreach meetings modeled on the SBREFA panel process to solicit and convey small entities' concerns with the proposed NAAQS. Two meetings were held as part of this process, on January 7 and February 28, with a total attendance of 41 representatives of small businesses, small governments, and small nonprofit organizations. Both meetings were attended by representatives of SBA and the Office of Management and Budget (OMB), as well as EPA staff. A report will be produced based on these meetings to ensure that small entity concerns are part of the rulemaking record when the Agency makes its final decision on the proposals.

In light of States' pivotal role in NAAQS implementation, EPA is also undertaking a number of additional activities to guide, assist and encourage the States to be sensitive to small-entity impacts as they implement any new or revised NAAQS. With the Small Business Administration, EPA is conducting interagency panels to collect advice and recommendations from small-entity representatives on how states could lessen the impacts on small entities. If it promulgates new or revised NAAQS, EPA will issue materials in two phases to help States develop their implementation plans. In view of States' discretion in implementing the NAAQS, these materials will mostly take the form of guidance, which is not subject to the RFA. But regardless of the form such materials might take, we intend to employ panel procedures before issuing them for public comment. These procedures will include the following steps: assessing to the extent possible any potential impact on small entities of NAAQS implementation by the States; conducting small-entity outreach on those issues; preparing an interagency panel report on small entities' concerns and recommendations with respect to implementation issues; and completing an analysis of any potential small entity impacts in light of the panel report. The Agency will then consider whether to change the materials in light of the report.

To supplement the input we receive from the aforementioned panel process, EPA is augmenting its Federal Advisory Committee Act (FACA) process to add more small-entity representatives to the subcommittee on NAAQS implementation. These

representatives have formed a small-entity caucus to develop and bring to the subcommittee a focused approach to small-entity issues. These new subcommittee members are also part of the larger group involved in the aforementioned panel process, and we are encouraging them to work together to share the views of the larger group with the FACA subcommittee. In this way, EPA hopes to promote the consideration of small entity concerns and advice throughout the NAAQS implementation process.

NAAQS CASAC CONCERNS

*Question.* I understand that EPA's Clean Air Scientific Advisory Committee is urging EPA to revamp its particulate research strategy, including putting resources into the issue of whether there is a link between exposure to fine particles and premature mortality. CASAC believes EPA's research budget request of $26 million is inadequate. What are you doing to address CASAC's concerns?

Answer. The Clean Air Scientific Advisory Committee (CASAC) reviewed two draft documents, "Particulate Matter Research Needs for Human Health Risk Assessment" and "Particulate Matter Research Program Strategy" at a public meeting on November 18 and 19, 1996. During this meeting a number of constructive comments were provided by individual CASAC members, and on March 12, 1997 a letter providing CASAC summary comments was provided to the Administrator. In some areas the CASAC provided general comments (e.g., use of the risk assessment framework to identify and prioritize research and allocate resources to the effort; research resources are insufficient), and in other areas there was a consensus on specific research priorities (e.g., that epidemiological research on links between long-term exposure to particulate matter (PM) and life shortening and other long-term health effects was among the highest priorities). Beyond a consensus view in these few areas, however, the opinions of the members varied and the committee did not achieve a consensus on an overall set of priorities.

The PM research strategy is being revised to incorporate suggestions provided by CASAC regarding general structural, presentation, and context issues. The comments of individual members will be carefully considered and revisions will be made where appropriate to reflect the many constructive suggestions. More importantly, the core issue of the document is the prioritization of research issues and, in the final document, the Agency will incorporate the consensus recommendations of CASAC regarding highest priority research areas. Specifically, the Environmental Protection Agency (EPA) will emphasize: (1) research to elucidate mechanisms of PM-associated mortality and morbidity to determine the biological plausibility of effects associated with PM exposures; (2) epidemiological research on links between long-term exposure to PM and life shortening and other long-term health effects; (3) research to examine linkages between health effects and personal exposures to physical-chemical subclasses of PM; (4) research to refine our understanding of exposure-dose-effects relationships to particles, alone and in combination with other air pollutants; and (5) research to provide a better understanding of personal exposure to PM, especially of individuals thought to be most susceptible. All these areas were identified in the draft research strategy, and EPA's research program in these and other areas will provide a solid basis for the next National Ambient Air Quality Standards review. Research also will be conducted in other areas, such as the development of a Federal Reference Method, consistent with the need to improve the scientific and technical basis for implementation of PM standards.

Regarding CASAC comments on the level of resources allocated to PM research, the ORD Strategic Plan identifies PM as one of six highest priority research areas, clearly underscoring the importance the Agency places on PM research. The fiscal year 1998 PM total President's Budget request represents an increase of between 200 and 300 percent above the fiscal year 1995 PM resources. With the requested fiscal year 1998 resources EPA is in a position to make substantial headway in addressing critical PM research issues in the next several years, and the fiscal year 1998 request is consistent with the need to conduct PM research.

The Agency cannot and does not expect to attack this problem alone. We are working with other Federal agencies (such as, the National Oceanic and Atmospheric Administration, etc.) through the Committee on Environmental and Natural Resources, the private sector (through our cooperative ventures with the Health Effects Institute and outreach to industry), and with other countries, such as Canada, the Netherlands, and other European countries, all of whom have begun to take this important problem into consideration under new regulations and guidelines, and have increased their research. With this multi-participant approach and its own strong research program, EPA can provide a leadership role to ensure that critical research needs are met.

COMMUNITY RIGHT-TO-KNOW—KALAMAZOO INITIATIVE

*Question*. EPA is proposing $35 million for a new "right-to-know" initiative. How is this initiative different from the existing Toxics Release Inventory program?

Answer. The Environmental Monitoring for Public Access and Community Tracking (EMPACT) program will provide at least 75 of the largest metropolitan areas (by population) in the U.S. with access to information regarding local environmental characteristics and relevant scientific and technical tools to understand and interpret the information. EMPACT is a program founded on collaboration across the Environmental Protection Agency (EPA) Program Offices and Regions, as well as with the United States Geological Survey (USGS) and the National Oceanic and Atmospheric Administration (NOAA) (partner EMPACT agencies). EMPACT will: incorporate improved and updated technology solutions for real- or relevant-time environmental measurement and monitoring; ensure that the information is useful and timely for families and communities; facilitate easy public access to comprehensive environmental data; and provide effective tools for communicating and interpreting environmental data. The Toxics Release Inventory (TRI) program is a national data base identifying facilities, chemicals manufactured and used at those facilities and the annual accidental and routine releases of these materials. TRI data will be included in the collections of information provided to EMPACT communities.

*Question*. What type of information will be made available through this new program and how will it be made available?

Answer. There are two distinct tracks for providing information through EMPACT. One track is the delivery of existing environmental monitoring information. Currently, the public is presented with a myriad of conflicting information that is of questionable quality and clarity and typically dated. The first track of EMPACT will provide the EMPACT cities with the best available data from USGS, NOAA (partner agencies in EMPACT) and EPA. Existing, easily understood information will be disseminated through the Internet. This track will gradually be phased out, to be replaced with a second track. At this point, EMPACT agencies will work with communities to identify opportunities to upgrade existing monitoring and data collection activities and provide the information in a format that is easily understood. This will result in the widespread use of real-time measurement and communication technologies. The experience gained by the EMPACT cities will be leveraged for the development of a framework that will enable the transfer of these technologies to other interested cities and communities.

*Question*. To what extent has EPA consulted with citizens to assess the type of information which would be useful?

Answer. During these early planning stages of EMPACT, EPA has relied on information provided by the Regions relevant to the types of information that would be useful to the 75 candidate cities. There is currently under development a formal plan that outlines an approach for interactions with the citizens, cities and states. The plan will facilitate consultation with citizens to assess the type of information which would be useful and desirable.

*Question*. How will the areas be selected?

Answer. The 75 metropolitan areas have been identified on the basis of population (source: Census Bureau). In addition, we are exploring metropolitan areas that are not represented by the top 75 cities.

*Question*. How will you ensure that the information which is provided in a context to make it relevant and meaningful?

Answer. A number of partners will be engaged to accomplish the goal of providing information in a context that is relevant and meaningful. EMPACT is currently reviewing options for collaborations with the private sector, focus groups in communities and non-profit participation.

URBAN LIVABILITY

*Question*. In the fiscal year 1997 budget, EPA proposed a new initiative called "Sustainable Development Challenge Grants," for which $5 million was appropriated. EPA has requested $15 million in fiscal year 1998. According to agency material on the program, these grants "will be catalysts that challenge communities to invest in a sustainable future, recognizing that sustainable environmental quality, economic prosperity, and social equity are inextricably linked." What has been accomplished to date with this program?

Answer. In fiscal year 1996, EPA received over 600 proposals. Approximately 75 percent of the proposals had an urban focus, 25 percent rural. To date seven projects have received grant funding and EPA anticipates that three more grants will be awarded shortly.

This year, in addition to completing award of the fiscal year 1996 grants, EPA has prepared a Federal Register notice calling for proposals for Sustainable Development Challenge Grants. We expect to solicit proposals in April 1997 with proposals due three months from the date of publication in the Federal Register. After receipt and review of the proposals, EPA expects to make grant decisions in October 1997.

URBAN LIVABILITY VS. CHALLENGE GRANTS

*Question.* In the fiscal year 1997 operating plan, EPA proposed a new initiative called "Urban Livability" and $5.5 million is requested for this program in fiscal year 1998. "The program is designed to provide cities with tools and information to develop community-based solutions to pressing environmental issues." The challenge grants are to "catalyze community-based projects to enhance environmental quality." Other than the urban emphasis, how is the new initiative different from challenge grants?

Answer. The sustainable development challenge grants are complimentary to the urban livability initiative. The primary activity within the urban initiative is to identify generic urban environmental problems. EPA currently plans to use pilot cities (one in 1997 and three in 1998) as the "real-world" basis for the urban initiative. By bringing together other federal agencies, local governments, and private sector partners in the pilot programs, together, EPA and its partners will use either existing tools or develop new tools to propose solutions that can be replicated in urban areas across the country. Funds from the grant program can be used to support urban livability initiatives in pilot areas but also may be used to provide seed money to encourage community based development of solutions for site-specific projects that solve environmental problems, encourage economic development, and foster clean urban environments while removing barriers to development and economic growth.

URBAN LIVABILITY AND PERFORMANCE PARTNERSHIP AGREEMENTS

*Question.* Why is yet another initiative necessary? Why not allow states to fund such projects as part of their performance partnership agreements, rather than having a new EPA program?

Answer. The urban livability initiative is necessary in order to develop a unified national program that cities and localities can look to for a tool bag of strategies and solutions to common urban environmental problems that can be used in urban areas across the country. EPA will use a pilot city approach to assist in identifying the environmental issues and will work hand-in-hand with partners and stakeholders to develop strategies and tools and to propose solutions to urban environmental problems while encouraging economic development and removing barriers to economic development and growth.

EPA will use part of the requested funding to develop the tools and information needed to carry out the urban livability initiative. EPA will use the other part of the funding to stimulate state and local efforts to address urban environmental problems. We expect that State and local governments will look to the urban livability initiative as a model and in the future, may use performance partnership grants, other federal grant funds, and state, local and nongovernmental resources to carry out urban livability initiatives. In allocating funds to pilot areas, EPA will give priority to those areas that demonstrate commitment by targeting other resources.

ADVANCED MEASUREMENT INITIATIVE (AMI)

*Question.* EPA proposed a new initiative in the fiscal year 1997 operating plan called the Advanced Measurement Initiative. EPA requested $1 million in fiscal year 1997 and additional $4 million in fiscal year 1998. The program is intended "to accelerate the application of advanced technologies to enhance environmental measurement and monitoring capabilities," such as remote sensing.

What specific roles will other agencies plan in this initiative, and are they committed to this program?

Answer. A key part of the initiative is to work in partnership with other agencies that have developed relevant technologies and demonstrated related applications and techniques. In the first phase of AMI, EPA, NASA and DOE have held and will hold workshops to assess environmental needs of the Agency, and to demonstrate applications of advanced technologies.

AMI will also work with other agencies as sponsors or partners in pilot applications to identify and potentially adapt technologies. A significant role of each agency in these partnerships will be to verify techniques that will produce information that each agency will need, accept and deem credible. The specific roles and commitments of a partner agency will depend upon each AMI project.

*Question*. What will you do with just $4 million to develop these existing technologies to meet EPA's needs?

Answer. AMI will apply the $4 million and leverage the investment of other agencies to identify, adapt and apply existing innovative environmental monitoring and observation tools. EPA will invest resources to conduct a small number of applications to demonstrate the technical and institutional uses of these technologies, verify acceptable methods, and determine lessons to implement other advanced technologies throughout EPA in the future.

*Question*. Given the states are responsible for a significant amount of environmental monitoring, what role will they play in the selection and prioritorization of projects?

Answer. EPA appreciates that the states are responsible for a significant amount of environmental monitoring and recognizes that implementation of advanced technologies and improved techniques will involve state participation. In the process of project selection, AMI will include state representatives in the peer review

*Question*. When do you expect these technologies will be made available for environmental monitoring?

Answer. The ability to apply advanced technologies depends largely on two factors: (1) the maturity of the technology, and (2) the ability of the organization to incorporate the technology into its standard operating procedures. Each factor has its own development timeframe, but one may not always want to address both factors in parallel. In general, AMI does not feel it is wise to tackle institutional issues before a technology demonstrates a significant potential.

AMI estimates that the projects will involve technical and institutional issues involving technology verification and acceptance in approximately 1–5 years. Availability will depend upon the projects that are selected and the technical and institutional factors involved. The sooner the technologies are verified and the institutional issues are resolved to accept information from new sources, the sooner EPA can expect a proliferation of environmental monitoring technologies from the private sector.

STAR AWARDS BY STATE AND CATEGORY

*Question*. Please provide a state-by-state breakdown of STAR awards by category (focused RFA's, Exploratory Research Grants Program, and the Graduate Fellowship Program).

Answer. Following are a series of tables which identify the total STAR Program awards by state for fiscal year 1995 and fiscal year 1996. The dollar values listed below are total commitments by EPA for new 1995 and 1996 grants, and include future increments of funding. In addition to the below listing, partner funding of nine jointly-funded grants increases the funding by approximately $1.37 million. In addition to the listing below, there are 55 partner-funded grants resulting from our joint solicitations. The total funding of those grants is approximately $18.84 million.

RESEARCH FUNDING BY STATE

*Question*. Please provide a table listing the distribution of all EPA research funding by state for the two most recent years this data is available.

Answer.

| | Fiscal year 1995 | | Fiscal year 1996 | |
|---|---|---|---|---|
| | Number | Amount | Number | Amount |
| RFA's | 87 | $26,029,758 | 144 | $77,672,873 |
| Exploratory | 87 | 26,609,795 | 51 | 18,849,648 |
| Total | 174 | 52,639,553 | 195 | 96,522,621 |

| State | Fiscal year 1995 RFA award | | Fiscal year 1995 Exploratory awards | | Fiscal year 1996 RFA award | | Fiscal year 1996 Exploratory awards | |
|---|---|---|---|---|---|---|---|---|
| | No. | Funding | No. | Funding | No. | Funding | No. | Funding |
| Alabama | | | 1 | $118,996 | 2 | $783,779 | | |
| Alaska | | | | | | | | |
| Arizona | 2 | $425,258 | | | 3 | 1,329,755 | 2 | $793,068 |
| Arkansas | | | | | 1 | 538,785 | 1 | 481,991 |
| California | 8 | 1,859,809 | 15 | 4,301,399 | 7 | 4,795,847 | 9 | 3,139,106 |
| Colorado | 5 | 885,616 | 5 | 1,223,136 | 11 | 7,062,624 | 3 | 1,340,300 |
| Connecticut | | | | | 1 | 572,710 | 2 | 697,735 |
| Delaware | | | 1 | 334,455 | | | | |
| District of Columbia | 5 | 1,192,341 | 2 | 232,227 | 2 | 375,000 | | |
| Florida | 1 | 407,769 | 2 | 478,512 | 4 | 2,558,883 | | |
| Georgia | 4 | 1,123,855 | 1 | 189,104 | 5 | 1,934,686 | 1 | 264,669 |
| Guam | | | | | 1 | 353,723 | | |
| Hawaii | | | 1 | 420,636 | | | | |
| Idaho | | | 1 | 323,920 | | | 1 | 280,133 |
| Illinois | 3 | 779,964 | 2 | 705,442 | 1 | 350,000 | | |
| Indiana | 1 | 100,000 | 1 | 3,000,000 | 2 | 1,834,141 | 1 | 356,212 |
| Iowa | 1 | 635,257 | 4 | 763,496 | 5 | 2,011,271 | | |
| Kansas | 1 | 220,000 | | | 2 | 804,697 | | |
| Kentucky | 2 | 676,200 | | | 1 | 475,760 | 1 | 346,543 |
| Louisiana | | | 1 | 362,823 | | | 1 | 165,436 |
| Maine | | | | | | | | |
| Maryland | 2 | 1,119,824 | 1 | 242,538 | 7 | 5,678,816 | | |
| Massachusetts | 7 | 2,561,985 | 6 | 1,726,798 | 14 | 5,965,627 | 6 | 2,695,438 |
| Michigan | 2 | 287,802 | | | 5 | 2,159,811 | 2 | 765,794 |
| Minnesota | 3 | 835,000 | | | 5 | 3,105,350 | | |
| Mississippi | | | 3 | 541,531 | 2 | 1,197,259 | | |
| Missouri | | | 1 | 267,000 | 1 | 190,000 | | |
| Montana | | | | | 1 | 329,735 | | |
| Nebraska | | | | | | | | |
| New Hampshire | | | | | | | | |
| New Jersey | 2 | 549,950 | 2 | 668,961 | 3 | 1,309,690 | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| New Mexico | 1 | 184,998 | 1 | 155,609 | ..... | ..... | 1 | 500,000 |
| New York | 5 | 2,296,666 | 6 | 1,834,844 | 11 | 4,333,999 | 1 | 335,507 |
| Nevada | ..... | ..... | ..... | ..... | 1 | 767,805 | 1 | 288,645 |
| North Carolina | 5 | 1,321,400 | 3 | 714,781 | 15 | 7,704,339 | 3 | 1,138,428 |
| North Dakota | ..... | ..... | ..... | ..... | 2 | 485,285 | 1 | 374,925 |
| Ohio | 4 | 1,249,784 | 4 | 1,245,662 | 2 | 922,347 | 1 | 488,000 |
| Oklahoma | 1 | 244,955 | ..... | ..... | 3 | 836,654 | ..... | ..... |
| Oregon | 2 | 896,975 | 5 | 1,372,345 | 2 | 1,844,846 | 2 | 824,802 |
| Pennsylvania | 5 | 1,241,481 | 5 | 1,598,032 | 8 | 3,412,653 | 1 | 218,643 |
| Puerto Rico | ..... | ..... | 2 | 477,292 | ..... | ..... | ..... | ..... |
| Rhode Island | 1 | 125,972 | ..... | ..... | 1 | 165,081 | ..... | ..... |
| South Carolina | 1 | 465,300 | ..... | ..... | 1 | 484,376 | 1 | 372,642 |
| South Dakota | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... |
| Tennessee | 1 | 139,327 | ..... | ..... | 1 | 1,697,105 | 1 | 359,300 |
| Texas | 4 | 1,580,992 | 6 | 1,707,244 | 4 | 1,519,918 | 2 | 579,170 |
| Utah | 1 | 330,000 | ..... | ..... | 1 | 353,103 | 1 | 315,706 |
| Vermont | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... |
| Virginia | 3 | 779,990 | 2 | 529,763 | 1 | 283,737 | 3 | 963,642 |
| Washington | 3 | 1,351,378 | 1 | 259,064 | 4 | 6,680,650 | 2 | 763,813 |
| West Virginia | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... |
| Wisconsin | 1 | 160,000 | 1 | 401,130 | 1 | 463,117 | ..... | ..... |
| Wyoming | ..... | ..... | 1 | 413,055 | ..... | ..... | ..... | ..... |

RESEARCH FUNDING BY STATE

*Questions*. Please provide a table listing the distribtuion of all EPA research funding by state for the two most recent years this data is available.

Answer:

| State | Fiscal year 1995 awards | | Fiscal year 1996 awards | |
|---|---|---|---|---|
| | No. of fellowships | Total dollars | No. of fellowships | Total dollars |
| Alabama | | | | |
| Alaska | | | | |
| Arizona | | | 6 | $168,160 |
| Arkansas | | | | |
| California | 11 | $320,326 | 20 | 528,984 |
| Colorado | 5 | 134,076 | 10 | 263,470 |
| Connecticut | 6 | 192,328 | 3 | 102,000 |
| Delaware | | | | |
| D.C | | | | |
| Florida | 2 | 58,759 | 3 | 75,931 |
| Georgia | 1 | 25,344 | 2 | 58,716 |
| Guam | | | | |
| Hawaii | 1 | 29,341 | 1 | 19,954 |
| Idaho | | | | |
| Illinois | 7 | 235,212 | 6 | 167,952 |
| Indiana | 1 | 26,192 | 1 | 32,090 |
| Iowa | 2 | 58,520 | | |
| Kansas | | | 1 | 31,270 |
| Kentucky | | | | |
| Louisiana | | | | |
| Maine | | | | |
| Maryland | 2 | 57,150 | 4 | 118,415 |
| Massachusetts | 5 | 169,682 | 10 | 321,884 |
| Michigan | 6 | 167,878 | 3 | 127,746 |
| Minnesota | 3 | 85,260 | | |
| Missouri | | | 2 | 53,146 |
| Montana | | | | |
| Nebraska | 1 | 24,310 | | |
| New Hampshire | | | 2 | 68,000 |
| New Jersey | 2 | 58,700 | 1 | 31,032 |
| New Mexico | 2 | 48,152 | | |
| New York | 12 | 348,459 | 6 | 190,881 |
| Nevada | 1 | 23,623 | 1 | 25,138 |
| North Carolina | 4 | 108,420 | 6 | 165,608 |
| North Dakota | | | | |
| Ohio | 1 | 38,405 | 1 | 29,302 |
| Oklahoma | 1 | 26,742 | 2 | 53,163 |
| Oregon | 4 | 138,881 | 1 | 27,047 |
| Pennsylvania | 5 | 176,025 | | |
| Puerto Rico | | | | |
| Rhode Island | 1 | 26,891 | | |
| South Carolina | 2 | 50,066 | | |
| South Dakota | | | | |
| Tennessee | | | 2 | 60,011 |
| Texas | 6 | 174,354 | 4 | 124,935 |
| Utah | | | 1 | 24,532 |
| Vermont | | | | |
| Virginia | 2 | 53,162 | 2 | 53,654 |
| Washington | 1 | 37,333 | 3 | 85,159 |
| West Virginia | | | 1 | 29,366 |
| Wisconsin | 3 | 87,118 | 1 | 24,466 |

| State | Fiscal year 1995 awards | | Fiscal year 1996 awards | |
|---|---|---|---|---|
| | No. of fellowships | Total dollars | No. of fellowships | Total dollars |
| Wyoming | | | 1 | 24,741 |

ORD GRANTS AND COOPERATIVE AGREEMENTS BY STATE

| State | Fiscal year 1995 | | Fiscal year 1996 | |
|---|---|---|---|---|
| | Awards | Total dollars | Awards | Total dollars |
| ALASKA | 2 | 728,146 | 1 | 15,000 |
| ALABAMA | 12 | 2,718,648 | 11 | 3,214,170 |
| ARKANSAS | 5 | 641,797 | 1 | 75,000 |
| ARIZONA | 9 | 1,916,547 | 4 | 2,001,427 |
| CALIFORNIA | 78 | 17,280,805 | 44 | 9,774,089 |
| COLORADO | 24 | 4,661,485 | 17 | 5,082,973 |
| CONNECTICUT | 3 | 278,224 | 3 | 310,886 |
| D.C | 95 | 18,137,464 | 68 | 13,600,494 |
| DELAWARE | 2 | 165,836 | 1 | 105,489 |
| FLORIDA | 20 | 2,984,099 | 12 | 2,367,274 |
| GEORGIA | 23 | 5,536,950 | 19 | 3,317,351 |
| HAWAII | 3 | 245,629 | 1 | 140,373 |
| IOWA | 10 | 2,281,144 | 8 | 1,959,372 |
| IDAHO | 5 | 769,249 | 3 | 265,400 |
| ILLINOIS | 14 | 2,058,854 | 4 | 720,236 |
| INDIANA | 8 | 1,516,134 | 5 | 1,324,533 |
| KANSAS | 7 | 4,844,816 | 4 | 1,284,755 |
| KENTUCKY | 6 | 11,374,961 | 4 | 320,956 |
| LOUISIANA | 14 | 5,868,190 | 7 | 1,094,240 |
| MASSACHUSETTS | 43 | 13,281,796 | 28 | 5,642,964 |
| MARYLAND | 14 | 2,675,171 | 8 | 2,960,597 |
| MAINE | 2 | 2,667,400 | 3 | 277,644 |
| MICHIGAN | 25 | 14,600,089 | 19 | 5,859,039 |
| MINNESOTA | 14 | 2,024,859 | 8 | 2,488,114 |
| MISSOURI | 6 | 632,727 | 1 | 89,000 |
| MISSISSIPPI | 10 | 1,322,523 | 5 | 901,568 |
| MONTANA | 2 | 204,697 | 44 | 10,261,042 |
| NORTH CAROLINA | 79 | 21,280,549 | 3 | 492,094 |
| NORTH DAKOTA | 2 | 1,098,183 | 1 | 100,135 |
| NEBRASKA | 2 | 79,031 | 14 | 3,071,019 |
| NEW HAMPSHIRE | 3 | 499,983 | 3 | 418,541 |
| NEW JERSEY | 17 | 7,842,262 | 3 | 616,669 |
| NEW MEXICO | 5 | 569,596 | 21 | 2,194,661 |
| NEVADA | 8 | 1,062,743 | 27 | 3,154,601 |
| NEW YORK | 34 | 4,803,501 | 5 | 936,110 |
| OHIO | 43 | 7,704,762 | 14 | 3,776,980 |
| OKLAHOMA | 4 | 666,666 | 15 | 2,315,102 |
| OREGON | 23 | 6,175,135 | 3 | 322,153 |
| PENNSYLVANIA | 28 | 3,979,698 | 1 | 133,512 |
| RHODE ISLAND | 3 | 724,623 | 2 | 690,919 |
| SOUTH CAROLINA | 2 | 489,911 | 14 | 1,672,581 |
| TENNESSEE | 6 | 856,075 | 1 | 126,804 |
| TEXAS | 33 | 9,259,608 | 1 | 54,150 |
| UTAH | 3 | 1,030,000 | 14 | 2,664,152 |
| VIRGINIA | 12 | 1,333,426 | 4 | 500,916 |
| VERMONT | 1 | 50,846 | 1 | 128,930 |
| WASHINGTON | 19 | 2,548,920 | 14 | 2,664,152 |
| WISCONSIN | 14 | 1,610,517 | 4 | 500,916 |

ORD GRANTS AND COOPERATIVE AGREEMENTS BY STATE—Continued

| State | Fiscal year 1995 | | Fiscal year 1996 | |
|---|---|---|---|---|
| | Awards | Total dollars | Awards | Total dollars |
| WYOMING | 2 | 476,667 | 1 | 128,930 |
| TOTALS | ..... | 68,945,214 | ..... | 78,335,658 |

EPSCOR AWARDS

*Question.* Please provide a summary of recent EPSCoR Awards

Answer. The table below summarizes all EPA EPSCoR Awards for fiscal years 1993 through 1995. Resources appropriated to EPA for the EPSCoR program for fiscal years 1996 and 1997 will be awarded to new proposals submitted in response to the 1996 December EPSCoR program announcement.

| Lead institution/participating institutions | EPA funding amount |
|---|---|
| Fiscal year 1993 | |
| University of Alabama/Auburn University | $400,000 |
| University of South Carolina/Clemson University | 400,000 |
| Fiscal year 1994 | |
| University of Nevada, Reno/University Nevada Las Vegas, Desert Research Institute | 394,000 |
| North Dakota State University/University of North Dakota | 394,000 |
| University of Puerto Rico/International Institute of Tropical Forestry | 394,000 |
| University of Idaho/Idaho State University | 394,000 |
| University of Kansas | 394,000 |
| Fiscal year 1995 | |
| University of Louisville/Eastern Kentucky University | 326,667 |
| University of Wyoming | 326,667 |
| University of Mississippi/Jackson State University | 326,667 |

EPSCOR REPORT

*Question.* The report accompanying the fiscal year 1997 VA, HUD and Independent Agencies Appropriations bill directed the EPA to report to Congress within 6 months on the Agency's Experimental Program to stimulate Competitive Research. Please provide the Committee with the status of the report, and indicate any particular challenges encountered thus far.

Answer. The report to Congress on the Experimental Program to Stimulate Competitive Research (EPSCoR) program is in the final stages of review within the Administration. There have been no significant challenges or problems identified in EPA during the writing and review process.

EPSCOR NSF MODELING

*Question.* Last year's Senate report also directed the EPA to model its EPSCoR program after the National Science Foundation's EPSCoR program and to coordinate the structure and selection process with the NSF. Please indicate steps the EPA has taken to coordinate the structure and selection process of EPA EPSCoR with the NSF EPSCoR. What Impact has this had on the program? What future steps toward this goal are expected?

Answer. EPA's EPSCoR program is modeled after the NSF's EPSCoR program. NSF provided guidance on the development of the Agency's first planning grants as well as assistance in the preparation of the first solicitation for implementation proposals. In addition, like NSF's program, EPA's program consists of two parts, a Strategic Improvement Plan (SIP) and individual Science and Engineering Environmental Research (SEER) project proposals designed to advance the state of knowledge in environmental science and engineering. All applications received in response to a solicitation are evaluated through a two-stage, competitive merit-review process. The first stage involves the evaluation of individual SEER projects for technical

merit by science and engineering peer reviewers. The results of the first stage review of the SEER's are used by the peer reviewers to evaluate the complete EPSCoR application which includes the SIP and the corresponding SEER's. This evaluation becomes the basis for guiding Agency approval or disapproval for funding decisions on the EPSCoR applications. As a follow up to this effort, EPA staff have also participated in a number of NSF's EPSCoR application reviews which has enhanced the Agency's selection process. In addition, EPA is a member of the EPSCoR Interagency Coordinating Committee (EICC) which was established by NSF in July 1992 to coordinate EPSCoR activities of six other federal agencies. The committee provides a forum which deals with all aspects of the EPSCoR Program. EPA will continue to work with NSF and the EICC to develop a sound program to support the EPSCoR states.

EPSCOR FUNDING DISTRIBUTION

*Question*. Of the total amount of research contracts and grants provided by the EPA in fiscal year 1995, 8 percent of the funds went to 18 EPSCoR States and the Commonwealth of Puerto Rico combined. For fiscal year 1994, this number was approximately 6.5 percent.

Given the localized nature of many environmental problems, does EPA feel this distribution of research funds is sufficient to meet environmental concerns and solve environmental problems in all regions of the country? Is this distribution of funds due to a lack of proposal submissions from the EPSCoR states, or is it due to a significantly lower success rate for these states?

Answer. EPA's Office of Research and Development (ORD) has developed a risk-based strategic plan to direct the overall ORD research program to focus on environmental problems presenting the most significant risks, but where the uncertainty about the magnitude is high. All aspects of ORD's research program are focused on these high risk areas in order to provide significant contributions to addressing the Nation's environmental problems and to ensure that the results have the broadest possible application.

We have analyzed the distribution and success rates for applications submitted to the STAR Program in fiscal year 1996 from both EPSCoR and non-EPSCoR states. Interpretation of this information at the state level is very difficult because the applications are submitted by individuals at different institutions within each state, and the range of both applications per state and success rate per state is very large. In fiscal year 1996 a total of 1,950 applications was received; 324 from 19 EPSCoR eligible participants, with an average of 17 applications/state, and a range 4–41, and 1,626 from 34 non-EPSCoR states, with an average of 48 applications/state, range 1–166. The success rate for EPSCoR participants averaged 7 percent with a range from 0–18 percent, while the success rate for non-EPSCoR states averaged 10 percent with a range 0–33 percent. Because both the number of applications per state and the success rate per state varies so widely it is not possible to determine a difference between the two groups in fiscal year 1996. Furthermore, as discussed in the EPSCoR Report to Congress, under the STAR Program in fiscal year 1995 and fiscal year 1996 the number of awards, the number of states and the number of institutions have all increased.

STAR PEER REVIEW

*Question*. Also, last year's Senate report encouraged the EPA, as part of the STAR Program, to "give special consideration to proposals for EPSCoR States that successfully meet the Agency's peer review requirements and are identified in the Agency's competitive award process. Will this be reflected in the 1997 Graduate Fellowship awards and other aspects of the STAR Program?

Answer. In accord with prior guidance from Congress, EPA is working diligently to improve the quality of its research. We have instituted a peer review process for the STAR Program that is patterned after that of the NSF. Consequently, we have made our primary consideration scientific merit of the application.

During the past two years, ORD has developed a Strategic Plan which guides decisions about research priorities. Using this plan we focus on research that deals with environmental issues that pose high risk but where there is great uncertainty about the magnitude of the risks; leads to new methods and models that can be used broadly across Agency; and develops risk reduction and pollution prevention methods where order-of-magnitude improvements are possible.

Finally, we look at ways in which the STAR Program complements research that we are doing in EPA laboratories, and the balance of the STAR Program in terms of distribution of awards by discipline, geographic area, etc.

As discussed in the previous response and in the EPSCoR Report to Congress currently under review, the steps we have taken to ensure impartial peer review and relevancy to the EPA mission have permitted EPSCoR states to compete effectively for STAR awards.

SBREFA

*Question.* How has your agency allocated its personnel and financial resources to meet the requirements of SBREFA?

Answer. The Administrator has delegated agency management of SBREFA to the Regulatory Management Division in the Office of Policy, Planning and Evaluation. As required by the Act, the agency has named a Small Business Advocacy Chair. Additionally, three employees support SBREFA compliance activities. All program offices have designated personnel as SBREFA coordinators for their respective offices. The program offices meet with the Small Business Advocacy Chair regularly to coordinate SBREFA implementation.

OPPE projects that there will be fifteen SBREFA panel processes in fiscal year 1998, which will require approximately 20 FTE in agency personnel and $125,000 in travel and $150,000 in contract support of panel requirements.

SBREFA PENALTY REDUCTIONS PROGRAM

*Question.* The law requires agencies that regulate small businesses to establish a policy or program to provide penalty reductions or waivers, where appropriate, to accommodate the good faith efforts of small businesses to comply with agency regulations. What steps has your agency taken toward instituting such a program? When will this program be up and running?

Answer. Section 223 requires each agency to develop within one year of SBREFA's enactment a policy or program providing for reductions or waivers of civil penalties for violations of statutory or regulatory requirements by small entities under appropriate circumstances. EPA has several policies which implement the section 223 requirement. The Agency's Policy on Compliance Incentives for Small Businesses (Small Business Policy) and a similar policy aimed at municipalities provide for civil penalties to be reduced or waived for small entities which discover first-time violations through on-site, government-supported compliance assistance programs or self-audits, where the entity promptly discloses and corrects the violation and meets certain other criteria. In a statement made on the Senate floor during congressional consideration of SBREFA, Senator Christopher Bond used EPA's Small Business Policy as an example of the kind of policy sought by the section 223 requirement. Vol. 142 No. 46, 142 Cong Rec S 3242 (Friday, March 29, 1996). In addition to that policy, EPA has issued a final audit policy entitled "Incentives for Self-Policing: Discovery, Disclosure, Correction and Prevention of Violations" which creates incentives for all entities, including small entities, to voluntarily discover, disclose and correct violations of environmental regulations.

SBREFA REG FLEX ACT

*Question.* Could you share with the committee recent examples of your agency's compliance with SBREFA will (has) enhanced your agency's compliance with the Reg Flex Act?

Answer. Prior to the passage of SBREFA, the Agency's reg flex policy was to perform a reg flex analysis on all rulemakings that were determined to have any impact on any small entities. With the passage of SBREFA, the Agency has reviewed guidelines to determine which rules will have "a significant impact on a substantial number of small entities" and, therefore, will be subject to a reg flex analysis. This review has established a policy that proposed rules that meet the "significant impact on a substantial number" threshold will have a reg flex analysis performed.

Prior to passage of SBREFA, EPA performed a wide variety of outreach activities to small entities. SBREFA § 609 amendments requiring Small Business Advocacy Review Panels have formalized many of these activities by structuring outreach to small entities in the rulemaking process. EPA engages in outreach activities on any rulemaking that may have an impact on small entities. This outreach has helped determine that, at this time, 15 rules are listed on EPA's Provisional Panel list for small business input into the rulemaking process. Our first panel, Non Road Diesel Engines, convened on March 25, 1997. We will convene several more panels in the upcoming months.

The Agency has reviewed existing procedures for compliance with § 610 of the Reg Flex Act. The Agency has previously performed § 610 review as part of § 602 Unified Agenda requirements. EPA will now publish in the Federal Register a separate listing of rules subject to § 610 review.

SBREFA SMALL BUSINESS ADVOCACY REVIEW PANEL

*Question.* What process has your agency implemented to determine whether a Small Business Advocacy Review Panel should be established prior to publication of a proposed rule?

Answer. The first steps of the process are actually designed to determine whether a panel must be convened. Unless the Agency certifies that a rule will not have a significant impact on a substantial number of small entities, a panel must be convened. Accordingly, the program office responsible for the rule must identify the rule's potential impact on small entities as soon as possible, and consider ways of structuring the rule to avoid any undue burden on small entities. To the extent the program office is successful in designing the rule to avoid any significant impact on a substantial number of small entities, a panel need not be convened.

If it is determined that a rule may have a significant impact on a substantial number of small entities, the program office will proceed with the next steps of the panel process, which include identifying and initiating discussions with representatives of small entities potentially affected by the rule.

Because of this process, the program office may still learn as a result of further consultations with small entity representatives or further analysis that the rule will not have a significant economic impact on a substantial number of small entities, and thus that neither an initial regulatory flexibility analysis nor a panel is required.

SBREFA REVIEW PANELS

*Question.* Have review panels been convened to review any forthcoming rules?

Answer. We are currently engaged in one panel which involves a forthcoming rulemaking on Non-Road Diesel Engines, and are beginning a panel process on the National Ambient Air Quality Standards Phase 1 Guidelines. We will be moving to convene panels on several other rules in the next few months.

NAAQS PM–10 REQUEST

*Question.* Could you tell the Subcommittee how much of EPA's fiscal 1998 funding request will be used for PM 2.5 monitoring and how much will be used for additional PM 2.5 health effects research?

Answer. The Agency has requested the following for PM 2.5 monitoring and research:

[In millions of dollars]

| | *Fiscal year 1998 request* |
|---|---|
| Environmental Program Management Account: | |
| PM 10 monitoring | 0.1 |
| PM 2.5 monitoring | 1.2 |
| Total | 1.3 |
| State and Tribal Assistance Grants: | |
| PM 10 monitoring | 6.6 |
| PM 2.5 monitoring | 10.9 |
| Total | 17.5 |
| Science and Technology Account: | |
| Generic PM research [1] | 12.6 |
| Specific PM 2.5 research | 8.3 |
| Research grants [2] | 5.7 |
| Total | 26.9 |

[1] Generic PM research includes activities that are applicable to both PM–10 and PM 2.5 pollutants but could not be segregated.

[2] For fiscal year 1998 research grants have not yet been awarded but are expected to be predominantly for PM 2.5 research.

NAAQS MONITORING AND RESEARCH REPORT

*Question.* How does the 1998 funding request for PM compare with amounts expended for PM–10 monitoring and research over the past three fiscal years? Have

any of these monies been expended for PM 2.5 research or monitoring? If so how much?

Answer. The table below shows the Agency's funding request for PM for fiscal 1998 compared to the previous three years for PM–10 vs. PM 2.5 and for monitoring versus research. We expended funding in fiscal 1995–97 for PM 2.5 monitoring methods development and testing. In fiscal 1997 the Agency is providing funding to states to begin to purchase laboratory equipment and other infrastructure needs for monitoring.

[In millions of dollars]

| | Fiscal year | | | |
|---|---|---|---|---|
| | 1995 | 1996 | 1997 estimate | 1998 request |
| Environmental Program Management Account: | | | | |
| PM 10 monitoring | 0.4 | 0.4 | 0.2 | 0.1 |
| PM 2.5 monitoring | 0.4 | 0.8 | 1.1 | 1.2 |
| Total | 0.8 | 1.2 | 1.3 | 1.30 |
| State and Tribal Assistance Grants: | | | | |
| PM 10 monitoring | 5.5 | 5.5 | 6.1 | 6.6 |
| PM 2.5 monitoring | ..... | ..... | 2.7 | 10.9 |
| Total | 5.5 | 5.5 | 8.8 | 17.5 |
| Science and Technology Account: | | | | |
| Generic PM research [1] | 6.4 | 6.1 | 8.3 | 12.6 |
| Specific PM 2.5 research | 4.3 | 7.2 | 7.6 | 8.3 |
| Research grants [2] | ..... | ..... | 3.2 | 5.7 |
| Total | 10.6 | 13.2 | 19.1 | 26.6 |

[1] Generic PM research includes activities that are applicable to both PM–10 and PM 2.5 pollutants but could not be segregated.

[2] For fiscal year 1995 and 1996, the actual allocation of research grant resources are included in the figures for PM 10 and PM 2.5 research. For fiscal year 1997 and 1998 research grants have not yet been awarded but are expected to be predominately for PM 2.5 research.

NAAQS BASIC RESEARCH FUNDING

*Question*. There has been a realignment of resources in the Agency's research program over the past few years to enhance the basic research program, primarily through the STAR initiative. Please outline the extent to which any and all research performed by the EPA laboratories in support of NAAQS standard setting for criteria pollutants has declined in the last four fiscal years?

Answer. The Agency has pursued a balanced research program to ensure that we take full advantage of the Agency's strong in-house capability (complemented by the procurement of services from contracts), as well as engaging university and private sector scientists through grants and cooperative agreements. This approach is determined by the research requirements and how to best address those research requirements. Funding for the National Ambient Air Quality Standards (NAAQS) by the Office of Research and Development (ORD) laboratories has remained proportional.

The Science to Achieve Results (STAR) Program reflects the Agency's commitment of engaging the participation of the nations's best scientists in the implementation of the Agency's research program. However, STAR is not a basic research program. Through the STAR Program, ORD works with the Agency's National Program Managers to develop the Requests for Applications (RFA's) in particular research problem areas that are of importance to the Program Offices. The STAR program supports the Agency's mission.

NAAQS RESEARCH FISCAL YEAR 1997 FUNDING

*Question*. Describe how the $18.8 million appropriated in fiscal year 1997 for PM research was allocated between PM 2.5 research and monitoring.

Answer. The total Particulate Matter (PM) (both PM 2.5 and PM–10) research budget in the Environmental Protection Agency's fiscal year 1997 enacted budget is $19.1 million. (The $18.8 million mentioned above refers to the total extramural research dollars in the fiscal year 1997 budget.) All of these funds are for research.

The total research allotted to PM 2.5 breaks as follows. The PM 2.5 non-grants research portion is $7.6 million, which includes $6.7 million for PM exposure assessment monitoring and PM monitoring methods, $0.225 million for mechanism and dose work, $0.35 million for assessments, and $0.3 million for controls. The research grants, which will predominantly address PM 2.5, will total $3.2 million. However, the PM–10 research includes research on the total population of PM, both fine (PM 2.5) and coarse (PM–10), not just coarse PM.

The Agency's Office of Air and Radiation (OAR) conducts specific PM monitoring and, therefore, these monitoring efforts are not included within the research budget. In fiscal year 1997, the PM 2.5 monitoring efforts includes $1.1 million under the Environmental Program Management account and $2.7 million for State and Tribal Assistance Grants.

NAAQS FISCAL YEAR 1998 FUNDING

*Question*. How are the fiscal 1998 funds requested for PM proposed to be allocated between EPA and the states? How much will go to the EPA's Office of Air and Radiation and how much will go to the Agency's Office of Research and Development? Will any of these monies filter down to state agencies to install PM 2.5 monitoring systems?

Answer. Of the total PM budget for fiscal 1998 budget request of $73.9 million, $28.5 million is directed to states in assistance grants, $18.8 million is proposed for the Office of Air and Radiation (including Regional air activities) and $26.6 million is proposed for the Office of Research and Development. Of the $28.5 million for state assistance grants, $10.9 million will be targeted towards establishing a PM 2.5 monitoring network.

NAAQS PM RESEARCH INCREASES

*Question*. With respect to PM 2.5 health effects research, one of the members of the Clean Air Scientific Advisory Committee (CASAC) stated that EPA would be well advised to embark on a targeted research effort for PM 2.5. He has suggested a 3.5 year effort funded at a level of $30 million per year for research only. If the Agency had funding at this level, what aspects of PM 2.5 health effects research would you propose to enhance?

Answer. The overarching mission of the Environmental Protection Agency's (EPA's) particulate matter (PM) research program is to provide an improved scientific basis for future regulatory decisions concerning public health risks posed by airborne particles, alone and in combination with other air pollutants. EPA is finalizing a research strategy, "Particulate Matter Research Program Strategy: Health, Exposure, Assessment and Risk Management Issues," targeted to fill specific knowledge gaps identified in the Air Quality Criteria Document and subsequent PM Research Needs Document. The areas of research that need to be addressed to effect these decisions and implementation activities are as follows: (1) biological mechanisms, including characterization of particle characteristics, both alone and in combination with other air pollutants, associated with effects, dosimetry and other factors affecting susceptibility, and exposure-dose-response relationships; (2) population exposures to ambient, indoor and personal PM, especially of important subpopulations (e.g., children, the elderly, individuals with pre-existing disease) by developing and applying improved exposure methodologies and models; (3) regional and temporal variability in particle characteristics and toxicity; (4) the morbidity and mortality associated with "real world" short- and long-term exposure to PM and important co-pollutants such as ozone, through epidemiology, including development of new methods and evaluation of existing data; (5) atmospheric chemistry of PM to support fate and transport modeling to support regulatory implementation; (6) source contributions to ambient PM concentrations and the availability, performance and cost of risk management options to meet ambient PM standards; (7) improved particle measurement methods to characterize atmospheric PM; and (8) consultation and support to enable state, Regional, and international air pollution control organizations to perform risk assessments and apply risk management approaches with less uncertainty. The fiscal year 1998 budget request of $26.6 million will address these areas.

NAAQS PM 2.5 MONITORING COST

*Question*. With respect to PM 2.5 monitoring, what is EPA's estimated costs of installing air quality monitoring systems for all of the PM 2.5 nonattainment counties identified by EPA in its proposal? At the rate that the Agency is requesting funds for this fiscal year, how long do you project that it will take to fund the nationwide monitoring program?

Answer. EPA's monitoring proposal allows for monitoring coverage in most metropolitan areas as well as areas that might violate the standards. The estimated cost of the proposal for installing and operating this network of 1,200 monitoring sites is $70.8 million over four years. These costs will be shared by EPA and states. We project the nationwide monitoring network will be completed in the year 2000.

NAAQS HUMAN HEALTH PROTECTION

*Question*. Given the paucity of monitoring data and research, what assurances do we have that the proposed NAAQS standards would be protective of human health as required by the Clean Air Act?

Answer. With regard to the availability of fine particle monitoring data, over 20 studies have examined fine particle exposures directly (using fine particle monitor data, including PM 2.5, from over 50 cities), and showed associations with serious health effects. EPA used fine PM data from two cities (Philadelphia and Los Angeles) in performing its exposure and risk assessments. These assessments showed significant benefits associated with a fine PM standard. These studies and assessments were submitted to the Clean Air Scientific Advisory Committee (CASAC) for their review. In its closure letter to the Administrator on the PM Staff Paper, CASAC noted that there was a consensus, "that a new PM 2.5 [PM less than 2.5 microns in diameter] NAAQS be established, with nineteen [of 21] Panel members endorsing the concept of a 24-hour and/or annual PM 2.5 NAAQS." (Wolff, 1996) This advice from CASAC reflects the Panel members judgments with regard to the current scientific basis for making regulatory decisions concerning PM standards in the context of this review of the standards and their conclusion that such standards are necessary to protect the public health with an adequate margin of safety.

NAAQS SBREFA PROCEDURES

*Question*. Putting aside for a moment our disagreement on NAAQS, Mary Nichols' February 11 letter stated that "regardless of the ultimate composition of the implementation materials [meaning they would be a mix of rules and guidance], we [the EPA] intend to employ RFA/SBREFA procedures before issuing any proposed guidance or rules concerning implementation of revised NAAQS." Am I correct in assuming EPA will comply with the letter and spirit of SBREFA when it enters the "implementation" phase?

Answer. Yes, EPA plans to continue to follow both the letter and spirit of SBREFA as it develops implementation materials. We will follow SBREFA panel procedures regardless of the form these materials take. For that portion of the materials that is in the form of nonbinding guidance, our following of SBREFA procedures is a voluntary effort going beyond what SBREFA requires, since the RFA only applies to rules as defined in that act. Our intention is to work with small businesses to make sure we address their concerns in developing that guidance, which the States will ultimately use as they develop their plans to attain the NAAQS. To the extent that the materials include rules that would have a significant impact on a substantial number of small entities, our following of SBREFA procedures for those rules will be in fulfillment of the SBREFA panel requirement. In either case, we will follow SBREFA procedures to make sure small-business concerns are addressed as we develop these materials.

NAAQS AND SBREFA

*Question*. Because it is unclear what portion of implementation will be issued by rulemaking versus guidance, how can the agency comply with SBREFA on the one hand and employ "SBREFA-like" procedures on the other?

Answer. For that portion of the materials that is in the form of guidance, our following of SBREFA procedures is a voluntary effort going beyond what SBREFA requires, since SBREFA does not apply to guidance that does not have the force and effect of a rule. It is in this case that we consider our efforts "SBREFA-like." Our intention is to work with small businesses to make sure we address their concerns in developing that guidance, which the States will ultimately use as they develop their plans to attain the NAAQS.

To the extent that the materials include rules that would have a significant impact on a substantial number of small entities, our following of SBREFA procedures for those rules will be in fulfillment of a formal SBREFA requirement. In either case, we will follow SBREFA procedures to make sure small-business concerns are addressed as we develop these materials.

FOOD QUALITY PROTECTION ACT

*Question*. The recently passed Food Quality Protection Act places great emphasis on ensuring that the nation's food supply is safe for infants and children. In fact, the new law requires USDA to collect data on children's consumption patterns in consultation with EPA so that your agency can use actual real world information rather than hypothetical assumptions when assessing risk. For EPA decisions to be science-based, it is very important that accurate and scientifically valid data be used.

USDA has requested $6 million in the Administration's budget request to conduct a new children's food intake survey. What is your opinion of the need for this survey and what are your plans for ensuring that EPA and USDA do consult to ensure that the information collected by the children's survey and USDA's broad Continuing Survey of Food Intakes by Individuals is accurate and usable to EPA?

Answer. EPA has been and continues to be very supportive of USDA's programs to improve information on food consumption, particularly children's consumption patterns. The need to improve dietary assessments for children was originally identified by the National Academy of Sciences in its report titled "Pesticides in the Diets of Infants and Children". One of the major needs identified in fulfilling this goal is better data defining the dietary habits of infants and children. The major source of food consumption data used by the Agency to conduct dietary risk assessments is that generated by USDA. In its efforts to update existing data, EPA will use the Continuing Survey of Food Intakes by Individuals (CSFII) 1994–1996 survey data to provide up-to-date information on food consumption, which reflects changes in eating patterns which have occurred due to population behavioral changes and changes in ethnic distribution. However, the number of children sampled in the CSFII 1994–1996 survey is not sufficient to provide an acceptable projection of children's consumption patterns. Therefore, EPA has requested that USDA increase the sampling of children in the CSFII 1994–1996 to increase confidence in the dietary risk assessments for children.

EPA has already met with USDA—Agriculture Research Service (ARS) to discuss the number of children in the survey, timing, and the data collection protocol for the survey. EPA and USDA are committed to continued communication to ensure that reliable data to assess the risk of pesticide exposure to children from foods is developed.

The supplementary children's survey is specifically designed to address the need for greater representation of children in the CSFII 1994–1996. It is critical that this data is collected in a timely manner using a protocol identical to the one used in the 1994–1996 survey in order to ensure that the data can be combined, increasing our ability to accurately and defensibly estimate children's exposure. Failure to adhere to the protocol will jeopardize our ability to use the combined survey.

The larger data set will greatly improve the predictive power of the survey as a risk assessment tool. The Food Quality Protection Act (FQPA) mandates tolerance reassessments for all existing pesticides within ten years. A timely supplementary survey will permit EPA to use the data in the particularly complex assessments that EPA will conduct early in the process, because of the requirement to reassess the "worst-first."

According to USDA, ARS intends to begin the supplemental survey in fiscal year 1998. The results will be available for EPA's use in fiscal year 2000. USDA's proposed schedule is sufficient to meet EPA's needs. EPA and USDA staff have also begun detailed discussion of the design of USDA's next CSFII.

TRI PHASE II AND SBREFA

*Question*. I am concerned about a rulemaking that is currently at OMB, TRI Phase II and how the agency may have tried to skirt the requirements of the Small Business Regulatory Enforcement Fairness Act (SBREFA) and the Paperwork Reduction Act—both of these were supported by the President. I understand that this proposed TRI rulemaking was issued on June 27, 1996—just two days before SBREFA became effective. It would appear that the agency was trying to avoid some of the requirements of SBREFA by hastily proposing this rule. For instance, convening small business panels to discuss the rule. Also, the Paperwork Reduction Act requires the Agency take all "practical steps to develop separate and simplified

requirements for small businesses and other small entities." Can you tell me what the agency has done to comply with both SBREFA and the Paperwork Reduction Act for this rulemaking?

Answer. EPA's rulemaking record for the TRI Facilities Expansion Rule (TRI-Phase II) clearly demonstrates that EPA did not "hastily propose this rule." EPA has been working with TRI stakeholders since 1992 to identify appropriate sectors for inclusion in this core Right-to-Know Program. A review of EPA's outreach, screening process, and rulemaking record indicate a thorough and lengthy sector selection process. EPA scheduled issuance of the proposed rule for TRI Phase II long before the SBREFA requirements came into effect. TRI Facility Expansion has been included in the Agencies Annual Regulatory Plan and Semi-annual Regulatory Agenda as far back as November 1992. EPA conducted a public meeting on Facility Expansion in May 1992. In the May 1996 Regulatory Agenda, EPA indicated that the proposed rule would be issued in May 1996. However, EPA delayed issuance of the proposal to accommodate additional meetings and stakeholder discussions requested by various sectors including Chemical Distribution and Hazardous Waste. EPA issued its proposed rule on June 27, 1996, not to avoid the requirements associated with SBREFA, but to avoid the delays associated with repeating its outreach effort. EPA's issuance of this proposal on June 27, 1996 reflects a balancing of the Agency's commitment to hear from all stakeholders prior to proposal with its obligation to respond to President Clinton's August 1995 Directive calling for expedited expansion of the TRI program.

At proposal, EPA provided a number of alternatives for reporting and facility coverage for the proposed sectors. As a result, the Agency did not take a specific position on whether the rule would have a significant impact on a substantial number of small entities. Instead, EPA chose to prepare an initial regulatory flexibility analysis and presented the analysis for public comment in conjunction with the proposed rule. EPA carefully evaluated and considered all comments that were provided to the Agency on this issue. EPA believes that its sensitivity to small business concerns in developing the proposal, its proposal of alternatives, and other provisions such as small facility exemptions already built into the program and EPA's commitment to assist small businesses with their compliance with the program, more than satisfy the provisions of the Regulatory Flexibility Act (RFA) in effect at the time of the proposal.

Notwithstanding the Agency's intention to certify pursuant to section 605(b) of the RFA that the rule will not have a significant economic impact on a substantial number of small entities, EPA remains committed to minimizing small entity impacts when feasible and to ensuring that small entities receive assistance to ease their burden of compliance. Consequently, in developing the final rule EPA has chosen to consider all of the elements of a final regulatory flexibility analysis as set forth in section 604. In addition, as noted above, EPA will be preparing compliance guides and offering assistance to small businesses in complying with the rule.

With regard to the Paperwork Reduction Act (PRA), EPA believes that it has and will continue to work on simplification of reporting requirements for small businesses and other small entities. EPA has already provided an abbreviated reporting form for facilities with relatively low annual reportable amounts, has provided a hotline and training sessions for technical assistance, is developing sector specific reporting guidance, and provided facility specific, pre-printed forms and user friendly software packages. In addition to these efforts, EPA will convene a stakeholder process to review additional options to reduce reporting burdens.

*Question*. What steps have you taken to simplify requirements for small business and other entities in this rulemaking?

Answer. "The best available information" required to be reported to the TRI, as identified by the Emergency Planning Community Right-to-know Act (EPCRA), are based on facility specific data. TRI data is information which some reporting facilities may use to operate in an efficient and responsible manner. By its nature, some of the information is simple and straightforward. For many small businesses, only portions of the form need to be completed. The basic requirement of the TRI program is that covered facilities submit annual reports on their releases, management and transfers of listed toxic chemicals to EPA and their respective States. In comparison to many other regulatory programs which involve numerous requirements in addition to record-keeping and reporting, such as meeting performance standards and/or complying with prescribed management practices, the TRI program requires only the reporting of information.

Nevertheless, over the course of the Phase II rulemaking, including development of the proposed rule, EPA has taken a number of steps to reduce the economic impacts that might be imposed by the rule on both small and large entities. For the industries EPA proposed to add to the program, the Agency took steps to eliminate

reporting burdens for distinct facility operations where information was not expected to be generated. For example, EPA proposed an exemption from reporting for coal extraction activities by facilities in the coal mining group, SIC code 12, which simplifies threshold and reporting calculations for these facilities. EPA proposed this exemption because it concluded that coal extraction activities are not likely to involve the manufacture, process, or otherwise use of toxic chemicals above threshold levels, and thus facilities operating primarily extractive operations would likely not be filing reports.

In addition to measures such as the examples discussed above, the rule will incorporate a number of existing features of the TRI program that are designed to reduce burdens on small entities. The statute specifically exempts facilities with fewer than ten full-time employees or the equivalent. In addition, EPCRA only requires reports from facilities which manufacture or process more than 25,000 pounds, or otherwise use more than 10,000 pounds, of a chemical in a year. Further, facilities that would report as released or otherwise managed less than 500 pounds may take advantage of short-form reporting (TRI Form A) unless exceeding a 1-million pound alternate threshold for the manufacture, process, or otherwise use of a listed toxic chemical. The burden of this short form is only two-thirds that of filing the longer form R. Moreover, facilities reporting smaller amounts of chemicals may report in ranges rather than making more precise calculations. These features of the TRI program have a significant burden-reducing impact for small entities. For example, there are approximately 9,000 total facilities in SIC code 5169 (Chemical Distributors) but only 2,800, have ten or more employees. Of these 2,800 only 720 are expected to exceed the manufacture, process, or otherwise use threshold for one or more chemicals. Therefore, TRI, through its " built in" small business exemptions, would exempt over 8,000 or 92 percent of the Chemical Distributors. Moreover, of the estimated 720 reporting facilities, some will be eligible for short-form reporting under the alternate threshold, while others will be eligible for range reporting, both of which will lower the burden of reporting for the covered facilities. In addition, EPA has deferred the reporting associated with this rule until January 1, 1998 to facilitate development of sector specific guidance and training for small entities.

*Question.* Did you conduct a regulatory flexibility analysis for this regulation?

Answer. In accordance with the Regulatory Flexibility Act (RFA) and the Agency's longstanding policy of considering whether there may be a potential for adverse impacts on small entities, the Agency has evaluated the potential impacts of the rule on small entities. At proposal, EPA chose not to certify that the rule as proposed would not have a significant economic impact on a substantial number of small entities. EPA chose to develop an initial regulatory flexibility analysis for the proposed rule and provided that analyses to the public for comment. For the final rule, EPA certified that the rule will not have a significant economic impact on a substantial number of small entities. While EPA will, therefore, not be required by the RFA to perform a final regulatory flexibility analysis for the final rule, EPA has chosen to assess the impact of the rule on small entities, and is considering all the elements required in a final regulatory flexibility analysis.

*Question.* Since there seems to be so many problems with this rulemaking, why not pull it back and take the time to get the necessary input from small businesses and follow the SBREFA procedures?

Answer. EPA does not believe that there are significant problems with this rulemaking. EPA has conducted extensive outreach with the potentially regulated community prior and subsequent to issuance of the proposed rule. EPA has considered and evaluated all the issues raised by commenters and stakeholders. While EPA may not agree with some conclusions reached by some of the commenters, EPA has explained its reasoning in response to each of the comments raised. However, not agreeing with all these commenters or stakeholders does not mean that the Agency has not considered all comments raised nor does it mean that there are problems with the rule. As with any rulemaking, there can be a difference of opinion about various issues. EPA conducted a lengthy and thorough analysis of many different industry groups. EPA deferred addition of industry groups where significant questions existed relating to TRI reporting and EPA carefully weighed the standards provided in and consistent with the statute in deciding to add the industry groups included in the final rule. EPA's intentions to expand industries covered under TRI have been well publicized for many years. SBA and EPA's Office of Small Business Ombudsman have been informed and have conducted several meetings where EPA has participated to inform industry and industry advocates of the Agency's intent and progress. This action fulfills the President's August 8, 1995, directive to expedite an open and transparent rulemaking to expand the TRI program's industry coverage.

TRI PHASE II GAO STUDY

*Question.* As you know, the conferees in the fiscal year 1997 appropriations bill addressed the concerns about expanding the TRI program. GAO is currently studying this issue and how the program can be improved. We do not yet have the GAO report, how many small businesses would be impacted by this rulemaking?

Answer. Each facility which must file even one report is defined as an ''affected'' facility. The Agency estimates that the 6,400 facilities affected by the rule, i.e. those which must file even one report, are owned and operated by approximately 4,800 parent companies. Of these 4,800 companies, up to 3,600 of these qualify as small based on the applicable SBA size standards.

*Question.* Wouldn't it make more sense to wait for the GAO report to find out how this program is working before doing additional expansions?

Answer. EPA believes that expanding TRI to include additional industries actually addresses one of the fundamental recommendations made in GAO's 1991 report, which found that the TRI program was highly successful with regard to the chemicals and industries covered at that time, but should be expanded to cover more chemicals and industries. EPA agrees with GAO's earlier assessment and believes that this action will support GAO's recommendation to expand the TRI program to cover more chemicals and industries.

*Question.* What is the timing of all future expansions?

Answer. EPA has not established a schedule for any additional rulemakings that would add industries to TRI. However, EPA requested comments on industries that were not included in the proposed rulemaking and committed to considering any comments on those and other industries at some point in the future. Many comments were received that requested EPA consider the addition of other industries. EPA issued an ANPR (61 FR 51322, October 1, 1996) concerning the possible collection of additional data elements regarding chemical use. Following a series of public meetings and evaluation of public comment, EPA will determine whether and how to proceed on that initiative.

TRI PHASE II SBA OBJECTIONS

*Question.* Last December, Jere Glover, the Small Business Administration's Chief Counsel for Advocacy, requested that EPA consider the need to include chemical wholesalers and petroleum bulk distributors—which are primarily small business facilities that EPA's own data indicates release fairly insignificant amounts of pollutants. Apparently OIRA also objects to EPA's rule, having extended its review of the rule. In light of the objects raised by OIRA and SBA, why is EPA unwilling to alter a rule that imposes significant impacts on these small businesses without commensurate environmental benefits?

Answer. EPA does not believe that the addition of the petroleum bulk distribution and chemical wholesaling industry segments will impose significant impacts on small business. For many facilities within these industry groups, EPA believes that estimated impacts may greatly overstate the level of impacts that facilities will actually face. Many of the facilities within the affected industry segments conduct reasonably simple and routine activities which will not require the facility to calculate all elements for the TRI reporting form, for which costs are based. Further, EPA believes addition of these sectors will add significantly to the available public information on the use, management, and disposition of toxic chemicals and thus EPA believes addition of these industry segments will contribute significant environmental benefits. EPA also believes that, based on available information, facilities within this industry are comparable to facilities within the current reporting sector and are likely to provide similar information, thereby furthering the purpose of community right-to-know. While these industry segments have relatively high numbers of entities meeting SBA's size standards for small businesses (up to 500 employees in some cases), some facilities within these segments manage large volumes of TRI listed chemicals and mixtures containing TRI chemicals in a manner that may result in releases and transfers of toxic chemicals and in reports being submitted to EPA, the states and the public. EPA believes this information is relevant to the purposes of EPCRA and important for communities that are trying to assess the impact that industrial facilities have on their local environment.

TRI PHASE II ADJUSTMENTS

*Question.* If these facilities released significant amounts of pollutants, I would be among many members of Congress urging EPA and the businesses involved to take action to correct the situation. But Mr. Glover's letter reveals that EPA overestimated the potential releases from some facilities by a factor of 100 and had ''inex-

plicable deleted all records of zero releases from the analysis," resulting in "misleadingly higher average release figures." Has EPA taken this adjustment into consideration?

Answer. Reporting from these industry segments is significant for community right-to-know purposes given the volume of toxic chemicals handled and managed by them. Absent addition of these industry segments, communities may not have any information on the use and disposition of toxic chemicals of concern to them.

Further, EPA shared the background information for the data relating to chemical distribution facilities with SBA and engaged in extensive discussions with SBA; however, EPA does not agree with Mr. Glover's interpretation of EPA's use of some of the data in question. EPA did not use the data in question either to identify the chemical distribution industry as a candidate for consideration, or to select this industry for addition.

SBA's statement that EPA overestimated potential releases by a factor of 100 is a reference to a report for a single chemical at a single facility, which later submitted a revised estimate for that chemical. This revision was submitted by the facility in December 1996 for 1993 activities. The state currently is investigating the legitimacy of the revision. However, EPA has already incorporated this revision into its analyses. EPA has not revised any analyses that excluded reports of zero releases. However, again because these analyses were not used in connection with EPA's decision to add the chemical distribution industry, neither the reports of zero releases nor the 1996 revision from the facility would affect the bases for EPA's decision.

INFORMATION RESOURCES MANAGEMENT (IRM)

*Question.* How much money is EPA investing in information management activities? How much is in the program base? How much additional resources does this budget add? Where are the new resources being invested?

Answer. In the 1998 President's Budget, EPA is investing $469.6 million in its information management activities. The program base for information management activities in the Agency's 1997 operating plan is $463.4 million. EPA is increasing its information management activities by $6.2 million from 1997 (1.3 percent). The increase supports the following activities: the President's Community Right-to-Know: Kalamazoo Initiative; fixing Year 2000 software problem; building regional capacity to support data sharing/data warehousing with the states and tribes; and the acquisition and upgrade of the Agency's personal computers, servers, and storage capacity requirements.

IRM MANAGEMENT

*Question.* How are the Agency's information resources being managed? Who is responsible for the overall quality and integrity of EPA's information resources? How do they discharge this responsibility? Who decides what goes out on Internet? What standards of quality do they apply?

Answer. The Agency's Chief Information Officer (CIO) is responsible for developing the information policies that guide the management of information resources in EPA. EPA operates in a decentralized information management model (i.e., each EPA national program office has budget authority and provides certain program-specific information management support directly to its operating divisions). Within this decentralized model, the CIO retains responsibility for developing and implementing Agency-wide information policies. The CIO is also responsible for establishing and implementing an Agency IRM strategic plan and for providing various centralized information services such as management of EPA's National Data Center.

The CIO executes the information policy function through an Agency-wide directives clearance process. This process is guided and informed by EPA's Executive Steering Committee for Information Resources Management (ESC for IRM). All major Agency programs and functions are represented on the ESC for IRM. Additionally, the ESC for IRM membership includes representatives of EPA's Regional Offices and senior managers of state environmental agencies. Working in conjunction with the ESC for IRM, the CIO manages and discharges the Agency's IRM policy and management function, including the development of policies and standards for data quality and accuracy. Because many Agency functions rely on high quality scientific data to effectively protect public health and the environment, EPA's Office Research and Development is also a leader in developing data quality standards and practices for the Agency.

The information holdings for the Internet are approved by a Division Director (usually a Senior Executive Service rank) or higher (i.e., Office, Deputy Assistant Administrator, or Assistant Administrator) before they are posted to the EPA Internet site. The standards used for information released to the Internet are simi-

lar to those required for publication in other formats such as CD–ROMS, paper, bulletin boards, or fax. The quality of the information or data is often dictated by the source of the information, be it from a State Agency or the official submission from a regulated entity. Most of our national systems have data quality edit checks to ensure some level of data quality, which varies depending on the data field and the source of the data element. EPA's programs have an extensive quality assurance program in the design and extract of its databases to assure that public databases offer the official data that is contained in our national systems.

IRM INVENTORY

*Question.* Does the Agency have an inventory of all the information resources, public documents and software tools that it has produced, endorsed or funded?

Answer. EPA's portion of the Federal government-wide Government Information Locator Service (GILS) provides a high-level inventory of the Agency's major publicly available information resources. This inventory is available and easily searchable via the Internet, both from EPA's website, and from the Government Printing Office's Access website.

IRM PUBLIC RIGHT TO KNOW

*Question.* Since the Agency has emphasized the importance of public right to know, what steps are being taken to obtain an understanding of the average citizen? How much research and analysis of public information needs has EPA conducted? How much has it spent on such efforts? Have those efforts established the priority needs of the average citizen or have they identified the areas of potential interest?

Answer. Many of our public right to know efforts have been directed to the understanding of the average citizen. EPA realizes its customer/user community is a wide and diverse group of citizens. Much of our work reflecting right to know efforts have been undertaken with EPA's State partners. Regional Office staff have also been engaged to discern what the public wants. Staff, who directly support Freedom of Information Act requests (FOIA), have been consulted so that right to know efforts are responsive to FOIA requests. EPA has held presentations and focus groups with industry and not-for-profit organizations to hear from them what data is being sought by the public. Recently, EPA's NACEPT Committee's IRM Subcommittee held public meetings on the types of information needed by different types of constituent groups.

In the development and deployment of GILS, EPA held focus group meetings in various cities in the United States to understand average citizens' interests and requirements. The meetings included average citizens as well as environmental and information technology experts. Six meetings were held, and a survey conducted, at a cost of approximately $5,000.

This spring and summer, EPA will undertake more directed focus groups with the participation of major citizen groups, such as children, students, parents, industry representatives, and researchers to better understand and hear their needs. Hands on "lab" experiences are being planned to better understand what the citizens want.

Understanding citizen needs is also obtained from direct feedback to EPA's Internet site. Those comments and feedback submissions are provided to the data holders and appropriately addressed. User requirements are part of any system development effort. Having a better understanding of the citizens' concerns and needs for right to know have always been part of program office system design efforts. As part of system life cycle costs, they have been part of system development efforts that have not been specifically tracked or captured. EPA does not track the costs of such efforts, but it estimates that it expends a small but growing percentage of its public access budget on such research. Constant interaction with the public from the FOIA process and from our Internet comments and feedback is a vital step in our process for constant improvement to meeting our customer needs. Focus group meetings are being conducted in Washington, DC, New York, and North Carolina. They all involve hands-on observation of users from ten distinct user communities. The total cost is approximately $105,000.

PAPERWORK REDUCTION ACT

*Question.* What is the current OMB estimate of paperwork burden imposed by EPA reporting requirements? What steps will EPA be taking to reduce burden as required by the Paperwork Reduction Act (PRA)?

Answer. As of March 31, 1997, the estimate is 105,664,834 hours. To comply with requirements of the Paperwork Reduction Act (PRA) and a January 13, 1997 directive issued by the Office of Management and Budget (OMB), EPA recently completed a thorough review of its information collections with the objective of reducing

paperwork burden in the aggregate by 25 percent over three years. On April 14, the Agency submitted to OMB a comprehensive burden reduction plan.

As the plan indicates, EPA's information collection and distribution functions are going through a period of significant change. The Agency is committed to improving data collection, making it more useful to the Agency's many constituencies, and thus allowing information to serve as a more powerful tool for protecting the environment. This commitment is reflected in three different but related activities currently underway.

First, the Agency is in the process of reducing the paperwork burden that was in place as of October 1, 1995. By October 1, 1998, EPA expects to reduce its October 1, 1995 paperwork burden, by 21.8 million hours, or 21 percent of its baseline burden inventory. However the reduction is offset by 30.3 million hours of new rule requirements coming on line during that period of which the agency is projecting an additional reduction of 4.1 million hours. Of the twenty-one collections with burden hours greater than one million, sixteen will have significant reductions during the three years covered by the plan, and two additional ones are scheduled for reductions in 1999 or 2000. All-in-all, EPA projects its 10/1/98 burden will rise to 108.5 million hours, from its 10/1/95 baseline of 104 million hours.

Many of the new rules involve information requirements that enhance a community's right-to-know. Right-to-know information is environmental information presented directly to the public, enabling citizens and communities to make informed environmental decisions and providing a strong incentive for businesses to improve environmental management practices. EPA now has about 15 right-to-know collections, including, for example, drinking water notifications, reporting on releases and transfers of toxic chemicals, and disclosures by home sellers of lead-based paint hazards.

Under the Paperwork Reduction Act of 1995, "third-party" information, a large subset of this community right-to-know information, must be counted as "burden" within the Agency's information collection budget, even though this information is never actually "collected" by EPA. By the end of fiscal year 1998, community right-to-know information will total at least 26.7 million hours, or nearly 25 percent of EPA's total burden.

The third way that EPA's information collection and distribution efforts are changing is through a senior level Burden Reduction and Information Technology Executive (BRITE) task group. The Agency is looking comprehensively across programs and fundamentally rethinking why information is collected, how, and from whom, and then identifying ways to improve the process from the ground up. In particular, through the BRITE process the Agency is (1) looking at ways to introduce and expand the use of electronic recordkeeping and reporting, and (2) studying different ways to improve the efficiency of EPA's information collection system.

Because many major environmental programs involve compliance roles for both EPA and States, a complex mosaic of information collection responsibilities has developed over time. Therefore, a recurrent theme in EPA's burden reduction effort is partnership with States in implementation of reporting innovations. Coordinated State-EPA action is essential for successful implementation of reporting reform, and EPA is fully committed to this continuing deliberative process.

*Question.* Is EPA prepared to offer legislative proposals to modify existing environmental statues where needed to meet the PRA targets?

Answer. EPA has not identified any specific legislative proposals, but will continue to look at this option as it identifies further burden reduction opportunities.

IRM REPORTING EFFICIENCY

*Question.* Will EPA's burden reduction strategy include efforts to reduce duplication between EPA programs?

Answer. Yes, EPA has initiatives underway to improve system efficiency in collecting, managing and sharing environmental information. EPA's Locational Data Improvement Project and Key Identifier Initiative will consolidate information about facilities into one standard set of data common to all programs. Through the One Stop Reporting Initiative, EPA is working with States to develop a coherent overall environmental reporting and data management system that effectively serves all stakeholders (the public, regulators, and industry). This involves, in part, eliminating redundancies among environmental information collections at all levels of government, as well as streamlining and improving processes for more efficient information management.

*Question.* Will it include efforts to adjust reporting obligations based on a company's good compliance record?

Answer. Yes, EPA is investigating further opportunities to build upon the successful approach adopted by the Office of Water for the Discharge Monitoring Report. On April 16, 1996, EPA issued Interim Guidance for reducing the frequency of monitoring and reporting by permittees under the NPDES program. Under this guidance, any facility that can demonstrate an excellent compliance history, and an ability to reduce pollution beyond requirements in existing permits may qualify for reduced paperwork burden. Further reductions may be granted for facilities that also increase their levels of ambient monitoring and share this information with other stakeholders. EPA estimated this new approach will result in a 26 percent reduction in burden, or 4.7 million burden hours, when the program is fully implemented.

IRM DATA SECURITY

*Question.* What steps is EPA taking to make sure that increased public access will not compromise important trade secrets? What steps are you taking to build "firewalls" between public data readily available to on-line access and trade secret data that EPA is obligated to protect? Computer networks now allow competitors around the world to put together pieces of ordinary data to reveal trade secrets about how products are made: what steps are you taking to prevent this problem? How are you working with other agencies, such as the FBI, on preventing the use of public data to conduct economic espionage?

Answer. EPA does not post confidential business information (CBI), as defined by regulation, on the public access Internet server. Databases that are publicly available are screened for CBI information and those data elements that are CBI are not modeled for the database that would be released to the Internet. Thus, the database copy on the Internet does not contain such sensitive data or information.

Another important category of data is enforcement sensitive information. The Office of Enforcement and Compliance Assurance provides technical assistance in screening the databases offered on the Internet for enforcement sensitive data fields. These data elements are not part of the database that is Internet-available.

While economic espionage is of great concern to EPA, EPA has not worked with other federal agencies, such as the FBI, on this particular issue. EPA is currently discussing how to handle economic espionage problems and concerns with different and diverse industry groups.

IRM MISUSE OF ENVIRONMENTAL DATA

*Question.* If EPA is made aware of the misuse or the mischaracterization of environmental data by third parties, what steps is EPA prepared to take to stop such behavior and prevent its reoccurrence in the future?

Answer. The misuse and mischaracterization of environmental data by a third party is difficult to control. EPA has its own Internet site with proper security and controls. Our Internet site with the domain of "www.epa.gov" gives the public the assurance that the information found from our registered site is the government's information. EPA takes great effort to provide descriptions of the purpose and intent of data releases on the Internet. EPA's data holdings and information offerings provide an explanation as to what the data represents; from whom and when this information was obtained or released. Providing a thorough description of EPA data and information offerings in the form of data dictionaries and registered records is another of EPA's efforts to protect the misuse of environmental data.

Without examples of specific data misuse, it is difficult to answer precisely what actions the Agency would take to alleviate the problem. It is in EPA's best interest to provide a level, fair, and objective information base for the use of environmental information by any and all parties who are trying to protect the environment and public health. EPA's users are many and quite diverse. It is EPA's intent to provide all parties with complete and accurate environmental information on the Internet. Of course, ultimately citizens are free to provide their interpretations of EPA's data. When EPA is aware of any egregious misuse of its data, it attempts to provide clarity in appropriate forums.

IRM AND STATE-MANAGED DATA

*Question.* Since most environmental data collected under EPA programs is assembled by state governments, should the principal decisions about what to collect and how to manage the data be made at the state level? Should EPA be the principal data manager or one of several users of state-managed data?

Answer. The decisions about what environmental data to collect are shared between EPA and the states. Data to document compliance with Federal regulations and to ensure accountability under EPA-state delegation agreements are logically defined by EPA. The states, the regulated community and the public are consulted

by EPA in defining these requirements. The states are also consulted on the methods for aggregating and reporting data to EPA. In addition to EPA-mandated reports, a few states require reports that go well beyond Federal law. Finally, the states both define and finance a large portion of all ambient environmental monitoring.

Most data obtained from those subject to environmental regulations are collected by states operating under delegated agreements with EPA. The principal exceptions are the Toxic Release Inventory and the Biennial Report under the Resource Conservation and Recovery Act. For this reason, decisions about data management are increasingly being made by states within the framework of the minimum Federal requirements established by EPA. The expanding role of the states in data management reflects both changes in information technology and an increase in the resources and management attention that the states devote to data management. This trend also reflects EPA efforts to strengthen its partnership with states in this area.

EPA's One Stop Reporting Program is developing new data sharing partnerships with states that have a demonstrated commitment to comprehensive data management reforms. The One Stop program emphasizes data sharing based on common data standards and appears to offer increased efficiency to both the states and EPA. Both EPA and the participating states believe that this approach will also reduce the reporting burden on industry and enhance public access to environmental information.

In fiscal year 1996, EPA selected five states to receive $500,000 One Stop Reporting grants: Massachusetts; New Jersey; Missouri; Utah; and Washington. In a highly competitive process that attracted applications from 31 states, EPA has just selected an additional eight states to receive similar grants in fiscal year 1997: Pennsylvania; West Virginia; Georgia; Minnesota; Mississippi; Texas; New Mexico; and Oregon. Each One Stop state agrees to adopt data management reforms including the integration of data around common data standards, reduction of reporting burden, enhanced public access, inclusive stakeholder participation, strengthened accountability for data management, and over the long term, universal access to electronic reporting.

The priority states now assign to data management and data sharing is evident in the portion of total reform costs being financed by the One Stop states. Although figures vary widely, the typical One Stop state is investing $2 to $3 million dollars of state funds annually whereas the Federal contribution is a one-time grant of only $500 thousand.

NRC ADDITIONAL NPL SITES

*Question*. It has come to the Committee's attention that EPA is proposing to place tens or perhaps even hundreds of additional sites on the NPL if those sites are cleaned up under the jurisdiction of the Nuclear Regulatory Commission (NRC) to NRC's recently developed radiological clean up standards. These facilities include universities and research organizations with small reactors, radiopharamaceutical manufacturers, nuclear power plants, large teaching organizations and biotechnology companies. It is my understanding that EPA is under no statutory obligation or judicial directive to issue its own regulations in this area. Could you please describe for the Subcommittee, NRC's response to EPA's proposal to place its licensees on the Superfund list.

Answer. While EPA is not required to set clean-up standards under the Atomic Energy Act (AEA), EPA has clear authority to establish generally applicable cleanup standards and to provide guidance for Federal agencies. NRC and the Department of Energy (DOE), under the AEA, must ensure, through licensing requirements and other restrictions, that activities at regulated facilities do not exceed EPA's generally applicable standards. At this time, EPA is coordinating development of cleanup standards with DOE and NRC. However, given NRC's proposal to promulgate a rule less protective than what EPA would prefer, EPA may reconsider its policy under a separate statute (CERCLA) of not listing NRC sites on the Superfund National Priorities List (NPL).

EPA did work extensively with NRC during the development of NRC's standards. NRC's proposed rule was considered by EPA to be adequately protective of human health and the environment. Throughout the rulemaking process, EPA indicated to NRC that a dose limit of higher than 15 millirem a year (which EPA estimates corresponds to a risk of approximately $3.0\times10-4$), and the absence of requirement to protect groundwater that could be used as drinking water, might not be considered protective. EPA did not know that NRC intended to make changes from its proposal until November, 1996. EPA's concerns were heightened in April upon review of NRC's draft proposed rule which includes an "alternative criteria" that would allow

the dose limit at some sites to be as high as 100 millirems per year (which EPA estimates corresponds to a risk of approximately $2.0 \times 10-3$).

The number of NRC licensee sites that could be added to the NPL is dependent upon many factors including the degree of risks posed by the site and State concurrence on listing. A precise determination of the number of sites that could be listed cannot be determined at this time. The probable universe from which the sites which could be listed are as follows:

Total Large NRC Sites[4]: 275

—Estimated number of large NRC licensee sites.

—These are sites associated with nuclear fuel cycle and rare earth extraction.

Large NRC Sites Not on the Site Decommissioning Management Plan (SDMP)[5]: 240

Large NRC Sites on the SDMP: 35

SDMP sites that are on the NPL: 3

Other Sites on the SDMP[6]: 51

—The draft NRC decommissioning rule dated March 28, 1997 page 31, discusses a list of sites that may have "extensive soil contamination (albeit at relatively low levels) and have been placed in the Site Decommissioning Management Plan." NRC indicates that these sites warrant specific attention regarding their decommissioning.

NRC ADDITIONAL SITE CLEANUP

*Question.* In your Superfund budget request—is the cost of cleaning up these additional sites included in the budget request?

Answer. As the final resolution of the issue between EPA and NRC is uncertain, no change in budget priorities has been made to prepare for EPA response at these sites. If NRC finalizes the regulation in its current form, EPA would reconsider listing these sites. However, it is premature to assume that EPA must now absorb this additional workload, pending actual finalization of the regulation.

NRC DUPLICATIVE REGULATORY SITUATION

*Question.* In this era of shrinking federal budgets, agencies are being asked to do more with less. In light of NRC's oversight and separately implemented cleanup program for these sites, do you believe the cost and inefficiency of this duplicative regulatory situation can be justified?

Answer. EPA is committed to ensuring that cleanups are protective of human health and the environment. Under CERCLA, EPA may choose not to respond to certain types of releases if existing regulatory or authority under other Federal statutes provides for an appropriate response. In its current form, the NRC regulation may not be adequately protective of human health and the environment, forcing EPA to reconsider its policy of exempting NRC sites from listing on the NPL.

We hope that NRC will recognize the inefficiency that might occur and promulgates a standard that provides the public with the same level of protection from radiation that the public receives from other chemicals.

PULP AND PAPER INDUSTRY CLUSTER RULE

*Question.* As proposed in 1994, the new water and air standards for the pulp and paper industry, known as the Cluster Rule, would have had a devastating affect on this important U.S. industry. As a consequence, many members of Congress wrote to you and your staff to express very serious and specific reservations. As I understand it, the agency may be moving to address these concerns, but a firm date for promulgation never seems to be forthcoming. In view of the fact that the U.S. pulp and paper industry's capital planning is being held hostage to this rule, can you give us some idea of why promulgation has been delayed so long and when we can hope to see the rule finalized?

Answer. This regulation is the first one of its kind to integrate analyses of technologies to control both air and water pollution. It is also the first to consider an incentives program to encourage mills to go beyond the requirements of the Federal regulations and commit to improvements toward a low-flow, minimum impact mill of the future.

---

[4] U.S. EPA Sites Report, July, 1996, unpublished.

[5] EPA expects that only a small fraction of these sites would be listed on the NPL.

[6] U.S. Nuclear Regulatory Commission. November 1995. Site Decommissioning Management Plan. NUREG–1444 Supplement 1. Office of Nuclear Material Safety and Safeguards. Division of Waste Management.

What you describe as a significant delay in our schedule to promulgate the rule is largely the result of two factors: (1) our ground-breaking efforts, involving extensive stakeholder participation, to build an incentives program using existing authorities that will be a powerful impetus to continuous environmental improvement, and (2) the reiterative analytical process that is necessary to consider the combined effects of the air and water rules. While this approach has resulted in a longer developmental process, EPA is optimistic that the lessons we are learning through this process will serve us well through this rulemaking and future ones. EPA expects to transmit the rule for OMB review in early May 1997.

PULP AND PAPER INDUSTRY CLUSTER RULE PARTICIPATION

*Question.* I understand that in a July 1996 Federal Register notice, you indicated that EPA was considering offering regulatory incentives for mills willing and able to go beyond the requirements of the final cluster Rule. I applaud this approach and hope that the final rule will contain a program that provides meaningful rewards for companies willing to make the kind of large investments contemplated by your original proposal. Since this is precisely the kind of regulatory reform initiative many of us support, please share your latest thinking with respect to ways in which you will make this program attractive enough to gain the widest participation possible.

Answer. It is our firm belief that many mills are interested in improving their environmental performance. Our main goal in the incentives program is to provide the necessary flexibility, in the form of additional time, for mills to plan for and install improved pollution prevention technologies. In addition, we are exploring a variety of rewards for mills that achieve standards beyond baseline BAT. These incentives include public recognition and consideration of their advanced performance in our routine permitting and compliance monitoring. We believe many mills will choose to pursue the flexibility offered in this package.

PULP AND PAPER INDUSTRY CLUSTER RULE INCENTIVES

*Question.* I think it is critical that the final rule contain a meaningful incentives program. Do any of your problems stem from hesitation regarding the authority you have to offer such incentives?

Answer. We believe we have the statutory authority to provide an effective incentives program. We have explored the mix of options available for using regulations, policy and guidance to provide the strongest incentives program without tying the hands of the States who are our co-regulators. We are currently working out the final details of this incentives program.

---

QUESTIONS SUBMITTED BY SENATOR SHELBY

FQPA OFFICE OF MINOR USE

*Question.* Will the FQPA mandated Office of Minor Use be in place by September 1997?

Answer. Yes, section 31(a) of FIFRA, as amended by FQPA, requires EPA to "assure coordination of minor use issues through the establishment of a minor use program within the Office of Pesticide Programs." The Agency has been coordinating minor use issues for many years. To implement FQPA, EPA's Office of Pesticide Programs is developing an organized unit which will include a home for the minor use program. The program will establish policies and coordinate all minor use pesticide issues within EPA, with other agencies and with all interested parties.

FQPA MONITORING

*Question.* What distinction does EPA make when monitoring domestically manufactured products as compared to imported products?

Answer. EPA makes no distinction between domestic and imported pesticides. They must all be registered with EPA and comply with identical sets of requirements. All registrants of pesticides subject to FIFRA, whether manufactured domestically or outside of the United States, must report to EPA the types and amounts of pesticides produced, sold or distributed, beginning 30 days after production begins and annually thereafter. All products must be registered by EPA for their specific use before they can be legally applied, and must have an established tolerance or exemption from tolerance if used on food or feed commodities. FDA and USDA monitors pesticide residues on foods for both domestic and imported commodities. Any

food found in the U.S. with illegal pesticide residues would be declared adulterated and subject to seizure by FDA.

FQPA FOREIGN DATA

*Question.* Is EPA willing to accept data collected and verified in other countries when registering a domestic product? For instance, conditions, trials and field work on Canadian canola, peas and lentils is very similar to the U.S. situation.

Answer. EPA has reviewed and accepted data generated in other countries to support some registration decisions. EPA will continue to do so provided those data are collected under conditions similar to those in the U.S. and as long as they meet U.S. standards. EPA will continue to work with Canada to harmonize pesticide registration data requirements so our farmers have similar pest control tools and are not at a competitive disadvantage.

FQPA SECTION 18 EMERGENCY EXEMPTIONS

*Question.* Section 18's (Emergency Exemptions) are of vital importance to production agriculture. Are the timely issuances of Section 18's a high priority for agency resources both during and after final implementation of the Food Quality Protection Act (FQPA)?

Answer. Making timely decisions on emergency exemptions has been and will continue to be a high priority for EPA. In fact, the first decisions which were reviewed and completed under the new requirements of the FQPA were emergency exemptions. EPA remains committed to making timely decisions on emergency exemptions even though the resources and complexities involved with these decisions has substantially increased.

FQPA SECTION 18 LEVEL OF REVIEW

*Question.* Given the stress on agency resources being created by the implementation of the FQPA, does the agency now require the same level of review for Section 18's as for full registrations? If so, why is this being done since Section 18's result in diminished exposure and are time limited tolerances?

Answer. Emergency exemptions involving food uses have always required a significant level of review. Section 18's are primarily only allowed when progress can be shown toward a full Section 3 registration and the safety finding of "no unreasonable harm" can be met. EPA has always used the toxicological and environmental fate data submitted for the Section 3 to help make the Section 18 decision. FQPA did not change the provisions of FIFRA Section 18's or the need for quick responses. The additional effort for FQPA is that today we must make and publish a formal tolerance determination.

Section 18's do not result in diminished exposure, only in a shorter time span of exposure. Conceivably, many people may be exposed for several years to pesticides permitted under emergency exemptions. For example, if a Section 18 pesticide is used on corn, people eating that corn will be exposed for a shorter time frame but it would be the same level of exposure. Therefore, EPA must still consider all of the toxicological endpoints of concern, the amount of exposure and what the potential risk is to each exposed populations (i.e., adults, children, etc.). As a petition to address an emergency situation, the difficulty sometimes is that EPA must make a decision in an accelerated time frame (the target is fifty days but some situations require EPA to respond within a few days).

FQPA NEW PRODUCT AND NEW USE REGISTRATIONS

*Question.* If the agency is giving up high priority to Section 18's and also using up resources for a complete level of review, is this decision resulting in a slow down of new product and new use registration? If so, is this wise since new and safer products could, therefore, be delayed for market use?

Answer. New active ingredients and "reduced risk" chemicals continue to receive a high level of priority. While the Agency experienced an initial slow down in the 3 months following passage of the FQPA, EPA has recently approved a significant number of Section 18's and new active ingredient registrations. Because these actions are given high priority, EPA does not expect that new and safer products will be delayed in getting to market. In fact, in the first six months of fiscal year 1997, EPA has made more decisions on new active ingredients then the historical average.

Additionally, prior to FQPA, the Biopesticide and Pollution Prevention Division (BPPD) was created to focus their efforts on safer biopesticides and biopesticides in general. Their processes were well implemented prior to FQPA, therefore, there was very little if any slow down in their new product and new use registrations due to

FQPA. BPPD has registered 10 new biological active ingredients (AI's) under FQPA, one of which is BT corn, and will register an additional 6–8 new AI's in the next six months.

FQPA PRIORITIZATION TOP FIVE PRODUCTS

*Question.* By forcing companies to prioritize only their top five products due to agency resource problems, isn't the agency adversely impacting the marketing of new active ingredients and new label for existing products for minor uses?

Answer. EPA established the priority setting policy a year prior to passage of FQPA. It does not limit the number of applications which can be submitted, rather, it helps industry identify which applications are of greatest importance to them and to consumers. The purpose of the policy is to align Industry priorities with EPA's workload, and has proven to be an important management tool. EPA believes the priority planning system has enabled the agency to better manage the resources and, in fact, has increased the number of registration decisions for new uses and active ingredients. The priority setting process does not impact the approval of new pesticides because registrants have never had applications for more than two or three new pesticides pending at one time. Thus, each company always can make new pesticides their top priority with room for other applications as well. Likewise, many minor uses are considered priorities in the que. Further, EPA makes IR–4 minor use tolerance petitions a high priority for review.

FQPA DEFAULT TOLERANCES

*Question.* In considering whether to establish a tolerance, in absence of data on aggregate exposure to a pesticide residue, the agency has indicated it will create artificial percentages to represent aggregate exposure. This appears to be inconsistent with Section 405(b)(2) (C) and (D) of the FQPA statute. Under the FQPA, an adjustment for aggregate exposure appears to be warranted only when there is "available information" which evidences a need for an adjustment.

If the agency is spending time on the development of defaults in the absence of information, this would appear to be another reason for an overload of the agency resources resulting in delays in moving products to the market. It may also result in a system which may be at odds with the law. Has the agency given consideration to this problem and why has it continued to use theoretical defaults in the absence of "available information?"

Answer. EPA bases all determinations on available information. We have an obligation to use the best scientific methodology in evaluating the non-food exposures when considering a pesticide for registration, an emergency exemption or reregistration. EPA employs default assumptions only when information regarding the exposure to the pesticide is incomplete. If EPA knows that a pesticide has non-food exposures, we believe that it would be inappropriate to act as if such exposures are not occurring simply because we don't have rigorous data to calculate the precise level of exposure. Instead we will use protective but defensible estimates of such non-food exposures in our assessments.

For example, if EPA has information showing a pesticide is registered for use in and around the home, EPA believes that "available information" shows that residential exposure is occurring. In the absence of residential exposure data for the exact pesticide being evaluated, EPA will attempt to estimate exposure using available data. In many instances, for residential exposure, EPA scientists will use residential exposure data from other similar pesticides and calculate a reasonable exposure value from that data.

EPA will work to review all available information to refine our risk assessments, which could, in fact, lower our exposure estimates and allow the approval of additional uses. This approach may be helpful in areas where complete data have not been submitted.

Given the requirements of the law, not using some reasonable value representing our best scientific judgement would result in indefinite denials of applications while precise data were generated, a process which in many cases could delay decisions for a period of many months or years.

ENVIRONMENTAL SELF-AUDIT LAWS

*Question.* Alabama currently has legislation before the State House and Senate regarding environmental audit laws. As you are aware, environmental audit laws, which have been adopted in 20 states and are before 19 state legislatures, help determine the status of a company's compliance with federal, state and local regulations. The audits generally serve as a basis for corrective actions, remedial programs and lead to an improvement in environmental practices. Realizing that budgets

stretch only so far and the funds for inspection and audits are limited, states should be praised for creating a process that encourages companies to implement self-audits and then any corrective problem.

While recently EPA has taken small measures to recognize the value of environmental audits, why isn't your agency more supportive of the states efforts?

Answer. EPA supports environmental self-auditing and has an incentives policy of its own to encourage auditing and other forms of self-policing. Nonetheless, EPA opposes audit privilege and immunity legislation. Audit privilege invites secrecy, instead of the openness needed to build public trust in industry's ability to self police. EPA believes that audit privilege greatly complicates criminal and civil discovery, and frustrates public access to information. While EPA supports penalty mitigation as an incentive for voluntary disclosure and correction of violations, EPA believes that to immunize serious violations discourages companies from making the investments in pollution control necessary to prevent such violations. These are among the reasons that audit privilege and immunity laws are strongly opposed by law enforcement, state and local officials, citizens, and public interest groups.

*Question*. Isn't one of the purposes of early detection compliance with the law?

Answer. Yes. EPA's Self-Policing Policy, "Incentives for Self-Policing: Discovery, Disclosure, Correction and Prevention of Violations," issued on December 22, 1995, encourages early detection of environmental problems and their prompt correction. Unlike many immunity laws, EPA's policy encourages a high standard of care to prevent environmental problems from occurring in the first instance and to ensure that those who comply in a timely manner are not competitively disadvantaged by those who do not.

*Question*. Why is early detection of environmental hazards bad?

Answer. Early detection of environmental hazards is good in that it allows facilities to remediate any environmental damage sooner than if the facility waits until the hazard is discovered by a regulatory agency or the public. That's why EPA's Self-Policing Policy encourages early detection and correction of environmental hazards in exchange for reduced penalties.

*Question*. Why wouldn't the EPA support creative innovative state programs that promote compliance with the law and early detection of possible environmental hazards?

Answer. EPA does support state programs that promote compliance with the law and early detection of possible environmental hazards. EPA opposes certain state audit privilege and immunity laws precisely because they do not promote compliance with the law, but instead interfere with law enforcement and with the public's right to know.

As an alternative to audit privilege, EPA supports efforts by state environmental agencies, such as Pennsylvania and Florida, to develop penalty mitigation policies with criteria for self audits that are consistent with EPA's. Indeed, the EPA has encouraged the development of policies that offer penalty mitigation incentives for environmental auditing. EPA's Self-Policing Policy is working well to encourage environmental auditing and voluntary compliance without the adverse consequences to law enforcement and the public's right to know of a privilege and immunity bill. As of April 1997, 120 companies had disclosed violations at more than 400 facilities under the federal policy, proving that environmental auditing can be encouraged without blanket amnesties or audit privileges.

Moreover, federal laws and regulations establish clear standards that states must meet to obtain approval to administer federal environmental programs. To meet the minimum federal requirements for adequate enforcement authority for program approval, states with audit laws must retain the ability to obtain penalties and injunctive relief for violations, as well as the ability to obtain information needed to identify violations or determine compliance status. In analyzing the impact of state audit laws, the EPA stands ready to consult with state officials to ensure the adequacy of enforcement authority in federally-approved state programs. In working with the states, the EPA relies on a policy issued February 14, 1997, "Statement of Principles, Effect of State Audit Immunity/Privilege Laws on Enforcement Authority for State Programs," which articulates the minimum requirements for adequate enforcement and information gathering authority for the purpose of approving programs in states with audit privilege or immunity laws.

*Question*. It seems as though EPA's stance on this matter promotes an adversarial relationship with the very states and business that are attempting to comply with your agency's regulations. Why?

Answer. Recently, Administrator Browner met with representatives from several states and had a very positive discussion regarding EPA's concerns with audit privilege and immunity statutes. Since then, EPA has met with the states of Texas and Michigan to work out changes to those audit privilege and immunity statutes that

would enable the states to meet Federal legal requirements. EPA is ready and willing to meet with any other states to discuss amendments to existing or pending audit statutes for that purpose.

---

## QUESTIONS SUBMITTED BY SENATOR CRAIG

### WIPP SAFETY

*Question.* If WIPP is deemed to be acceptable, will it be safer to store waste at WIPP or where it is currently being stored?

Answer. The waste is currently being stored primarily at ten sites throughout the country and, at present, poses no immediate threat to public health. However, the dangers with the type of waste (transuranic) proposed for disposal at the Waste Isolation Pilot Plant (WIPP) is that it is radioactive and will be for tens of thousands of years.

Leaving the waste stored above ground will subject the waste containers to degradation from the weather, as well as leave them vulnerable to natural or other disasters. The current method of storage for transuranic waste is a medium-term fix, not a long-term solution. The advantage of a facility such as the WIPP is that, if it is proven to comply with the U.S. Environmental Protection Agency's (EPA's) disposal regulations, the facility would provide long-term protection to public health and the environment.

### WIPP COST

*Question.* What has been the cost to the federal government to date and what is the status of construction at WIPP?

Answer. EPA defers to DOE for information regarding both the total cost of the WIPP facility and the status of construction.

### WIPP COST OF REVIEW

*Question.* Do you have adequate resources to conduct a review of the application? What additional resources do you need, if any?

Answer. Yes, EPA has adequate resources to conduct the review of the application in a timely manner. No additional resources are needed.

### WIPP COMPLETENESS REVIEW

*Question.* What is the process of the review you are conducting or will conduct, and what is the schedule to complete this review?

Answer. The WIPP Land Withdrawal Act (LWA), as amended, requires that EPA make a determination as to whether WIPP meets the Radioactive Waste Disposal Regulations at 40 CFR Part 191. The LWA requires that EPA make this determination by rulemaking under Section 553 of the Administrative Procedures Act (APA). EPA is currently proceeding with rulemaking activities in accordance with the provisions of the WIPP Compliance Criteria at 40 CFR Part 194.

The Agency is taking every step to facilitate the certification decision. We are reducing the complexity and amount of time required for internal Agency review of the certification decision, and would like to expedite the time required for interagency review. We estimate that once DOE has provided all the required information identified in our March 19, 1997 letter to the Department, the Agency will produce a final certification decision within a minimum of 10 months. The expected certification decision of the DOE WIPP application is currently April 1998. This date is subject to change depending, in part, on the planned DOE delivery to EPA of the confirmatory verification test of the performance assessment by early July, 1997.

It is the Agency's goal to make a technically and legally defensible decision since it is likely that any decision will be subject to litigation. If EPA's final determination is not legally defensible, and it is overturned in court, the possibility of WIPP opening could be significantly delayed.

### WIPP COMPLETENESS REVIEW START

*Question.* Is there any prohibition as to when you can begin your evaluation of the Completeness Certification Application in 40 CFR 194.1?

Answer. There are no prohibitions identified in 40 CFR 194.11 [Section 40 CFR 194.1 identified in the question addresses the purpose, scope and applicability of the 194 regulation, while 40 CFR 194.11 addresses completeness and accuracy of compliance applications] regarding when EPA can begin review of completeness following DOE's submission of the WIPP Compliance Certification Application (CCA). In

fact, the Agency began review of the CCA immediately following receipt of the CCA on October 29, 1996. The Agency informed DOE on December 19, 1996, that additional information was required for a complete application. Since that time, the Department has periodically provided information to fulfill that request. The Agency received the last installment of information on that request and, as promised by Administrator Browner, will make a completeness determination in May, 1997.

WIPP CERTIFICATION EVALUATION

*Question*. How would you characterize EPA's evaluation for certification—is it a technical review of the application?

Answer. EPA is conducting a technical review of DOE's application. This review is designed to determine whether DOE has demonstrated a reasonable expectation of compliance with the disposal standards in 40 CFR 191. Reasonable expectation is demonstrated by compliance with the criteria identified in 40 CFR 194.

WIPP APPLICATION COMPLETION

*Question*. The application was filed at the end of October, 1996. To date, your reviews of the application have not been for the purposes of certification but for purposes of determining whether the application is complete—is that correct? What is the definition of complete and is that consistent with the definition found in 40 CFR 194.1?

Answer. No. EPA has conducted both its technical and completeness reviews simultaneously and has been doing so since receipt of DOE's application on October 29, 1996.

A complete application, as defined in EPA's Compliance Application Guidance (EPA 402–B–95–014), is one which addresses each of the requirements of 40 CFR 194 in such a manner as to warrant further scrutiny, so that EPA, DOE, and the public do not invest major resources in a rulemaking proceeding for an incomplete document. A completeness determination is a preliminary step in a more extensive administrative process and is consistent with the process identified in 40 CFR 194.11 [as previously noted, 40 CFR 194.1 addresses the purpose, scope and applicability of the 194 regulations, while 40 CFR 194.11 addresses completeness and accuracy of the application].

WIPP REVIEW COMPLETION SCHEDULE

*Question*. Would EPA please provide the Subcommittee with its schedule for a timely completion of review of the WIPP application within the next two weeks?

Answer. The Agency is taking every step to facilitate the certification decision. We are reducing the complexity and amount of time required for internal Agency review of the certification decision, and would like to expedite the time required for interagency review.

EPA would like to publish a proposed rule approximately 2½ months after DOE submits all the information EPA requested to fulfill the requirements of 40 CFR 194 (as identified in the March 19, 1997 letter from EPA to DOE). Following proposal, a four month public comment period will begin as required by 40 CFR 194. Upon completion of the public comment period, EPA will need a minimum of 3½ months to accomplish an expedited rulemaking process including responding to public comments, completing the technical support, drafting the final rule and completing the intra and interagency review. In total, it will take the Agency a minimum of 10 months to complete the final certification decision once DOE has submitted the required information. The expected certification decision of the WIPP application is currently April, 1998, although subject to change depending, in part, on the planned delivery to EPA of the confirmatory verification test of the performance assessment by early July, 1997.

WIPP INFORMATION FROM DOE

*Question*. Does EPA recognize a difference in the review process between requests to DOE for information related to a completeness determination and other additional requests for information which are for technical sufficiency or of a general nature?

Answer. Yes. The Agency has specified the difference in its letters to the Department. The Agency sent a letter to DOE on December 19, 1996, which identified areas of completeness and technical sufficiency; it also identified areas where necessary supporting documentation to demonstrate compliance with the regulatory requirements of 40 CFR 194 was lacking. Enclosed with the letter were separate attachments for items of completeness and technical sufficiency. The December 19,

1996, letter was the only one which identified additional information needs related to completeness.

WIPP COMPLETENESS DETERMINATION

*Question.* Is EPA's failure to issue a completeness determination based on requests for information of technical sufficiency?

Answer. No. It is based solely on those items identified in the December 19, 1996, letter where additional information is required for purposes of completeness.

WIPP REVIEW: REASONABLE EXPECTATION STANDARDS

*Question.* Does your review conform to the reasonable expectation standards contained in 40 CFR 191 and 194? Please be specific as to how this might relate to any requests for additional information relating to parameter evaluations, parameter variance determination and confirmatory performance assessments.

Answer. Yes. Regarding the parameter values chosen by DOE, EPA reviewed the available record on all of the approximately 1,500 parameters used in the WIPP performance assessment. Section 40 CFR 194.23 requires, among other things, for "detailed descriptions of data collection procedures, sources of data, data reduction and analysis, and code input parameter development." From our review, EPA identified 58 parameters which could have a significant impact on the results but the supporting data could not be found, the data did not support the values chosen, or the connection between the data and the chosen value was unclear. Questions about the values chosen for many of these parameters were also raised by DOE's own peer review groups, the National Academy of Sciences, the Congressionally appointed Environmental Evaluation Group and public commenters.

EPA has asked DOE to resolve the discrepancies between the information available in the record and the parameter values chosen. Where that cannot satisfactorily be accomplished, EPA will evaluate the data and provide parameter value(s) to DOE. The parameter variance determination was one tool which EPA used to determine whether each of those 58 parameters did indeed play a significant role in the results. If the results showed that a parameter did not play a significant role in the results, that parameter was dropped from consideration. EPA has already provided DOE a partial list of parameter values in an April 17, 1997, letter. Since this exercise has resulted in changes to some of the parameters which play a significant role in the results of the performance analysis. EPA has requested a confirmatory verification of the performance assessment to be completed by DOE using the parameter values which EPA believes more adequately reflect the available data.

As stated earlier, EPA's goal is to make a final determination which is both technically and legally defensible.

WIPP AND SANDIA NATIONAL LABORATORY COMPUTER COSTS

*Question.* Is EPA planning to duplicate all of the computer codes developed by Sandia National Laboratory? Will you use these codes to determine whether or nor the ultimate findings made by DOE are supportable?

Answer. No. EPA has not, nor does it plan to duplicate any of the computer codes developed by Sandia National Laboratory.

EPA has and will conduct exercises to verify that the computer codes developed by DOE produce reasonable and stable results. This is accomplished through benchmarking of the DOE codes against existing, commercially available codes used for similar purposes.

TECHNOLOGY NEUTRAL RECORDS OF DECISION

*Question.* I understand the Department of Energy's Environmental Management Program is proposing to perform Superfund Records of Decision that are technology neutral. This approach is proposed so that private industry can bring competitive technologies to bear on DOE problems, based solely on the required cleanup end state for the site.

Given EPA's promotion of consensus-based remedy selection, could you comment on how you think the public and state regulators would respond to technology neutral RODS? Has DOE requested EPA comment on this approach? What is your response to a technology neutral ROD approach?

Answer. The Agency is not familiar with the term "technology neutral" ROD's. However, your explanation of the concept of signing ROD's that rely on performance of a remedy is quite challenging and on the surface may seem deceptively easy. What follows are some issues that any performance-based ROD process would need to address.

The circumstances found at Superfund sites vary, both in the characteristics of the contaminants and in the different trade-offs that accompany any technology applied at the site. Such trade-offs can include different possible uses of the land after cleanup, different levels of emissions during cleanup, different time frames to complete cleanup, different levels of long term reliability and maintenance, and different costs. Each of these factors, along with others, is considered during the selection of remedy process identified in the National Contingency Plan. Equally important is the NCP's open decision-making process that incorporates community views. The Agency has learned that full involvement of the community in making decisions at sites leads to a successful, supported cleanup. It is this involvement that would have to be incorporated into any consideration of this concept in the long run.

However, there are opportunities for flexible approaches (e.g., treatment that offers similar performance relative to most NCP criteria) that should be considered within the context of an open consensus based decision making process.

Selecting only end-of-the-line performance in a remedy would appear to bury many of the important lessons we have learned over the past 15 years. For example, in 1991 the Superfund program began a series of program reforms, one of which directly relates to the concept you set forth. The reform called for treatability studies, which review the capability of new, innovative technologies to accomplish a hazardous waste cleanup, to be conducted prior to selection of a remedy. The reform addressed citizen concerns about technology selection after a ROD is signed. We have learned that it is most efficient and cost effective to "compete" new technologies in advance of signing a ROD.

More recently, EPA issued a presumptive approach for cleanup of ground water contamination in fiscal year 1996. This approach calls for developing a complete response to contaminated ground water based on incremental results (i.e., performance) of technologies put in place. This approach provides an iterative process for response that ensures both protection of human health and the environment and is a cost effective, appropriate response to ground water contamination at sites.

While DOE and EPA staff apparently have had some preliminary limited discussions, DOE has not formally requested EPA comment on this approach at this time.

TECHNOLOGY DEVELOPMENT

*Question*. The Department of Energy's Environmental Management Technology Development Program has a new technology development initiative to advance implementation of recently developed and demonstrated cleanup technologies. Is your agency working with the DOE to ensure the deployment benefits are passed on to DOD and private sector cleanup sites?

Answer. Yes, EPA is working with DOE to coordinate the deployment of new technologies. EPA is participating as a member of DOE's Environmental Management Advisory Board-Technology Development and Transfer Committee. EPA also participates with DOE, DOD, and other federal agencies in the Federal Remediation Technologies Roundtable. The Roundtable was created to exchange information on site remediation technologies, and to consider cooperative efforts that could lead to greater application of innovative technologies. These collaborative efforts have led to technology development and demonstration partnerships with industry and a unified federal approach to assessing and documenting technologies.

*Question*. What is your agency doing to encourage the use of innovative and alternative technology in the cleanup industry?

Answer. EPA is actively involved in encouraging the use of alternative and innovative technology. Under the Office of Solid Waste and Emergency Response (OSWER), the Technology Innovation Office operates to reduce barriers for new treatment and site characterization technologies. The use of innovative treatment technologies has increased over the past several years and in the Superfund program, approximately one-third of the treatment technologies chosen for source control may be considered as innovative.

OSWER is assisting private developers by publishing market studies and hosting marketplace conferences (in cooperation with DOE and other agencies) to better define the near-term demand for innovative technologies. To inform site managers about current technology capabilities, OSWER has developed two computer-based systems with information about vendors who supply treatment, as well as characterization and monitoring technologies, to the marketplace. The data bases allow site managers to identify potentially applicable technologies and the vendors who supply them. OSWER is also sponsoring an American Academy of Environmental Engineers project to publish peer-reviewed design manuals to give consulting engineering firms access to state of the art information on the applicability of technologies to various contamination problems. In an effort to pool risks associated with tech-

nology development, OSWER and EPA's Office of Research and Development are jointly leading an effort with other agencies and several Fortune 500 companies to jointly develop and evaluate treatment technologies. The Remediation Technologies Development Forum (RTDF) harnesses the intellectual and financial resources of the agencies and companies to develop technologies of mutual interest. This pooling of effort reduces the financial burden and risk of technology research on any one organization. EPA leads another collaborative effort to evaluate characterization and monitoring technologies. The Consortium for Site Characterization provides developers with an independent evaluation of their technology's performance. The RTDF and Consortium efforts will accelerate the evolution of new methods and their acceptance by federal and state regulators as well as technology users.

EPA's Superfund Innovative Technology Evaluation (SITE) program has been evaluating new treatment technologies for over a decade. Under SITE, the agency enters into cooperative agreements with vendors to demonstrate and evaluate technology performance.

OSWER has issued a policy directive affirming our commitment to technology innovation. The directive provides additional flexibility to support the development, demonstration, and application of treatment technologies, particularly those which address groundwater contamination and those which involve potential cost saving by treating wastes in situ. We also see the potential for significant benefits in productivity and cost savings through increased use of field measurement and monitoring methods. Our policy directive supports broader use of such approaches. We also hope to bring our increased regulatory flexibility together with desirable attributes of federal facilities to act as test beds for innovative technology development and demonstration.

EPA produces a vast amount of information describing markets and assessing new treatment and site characterization technologies. The Technology Innovation Offices's homepage at HTTP://CLU-IN.COM is dedicated to the exchange of information related to new technologies for soil and ground water cleanup.

*Question*. Would a centralized national effort to demonstrate deployability of new cleanup or monitoring technology be a worthwhile goal for the country?

Answer. At the present time, there are several different agency efforts to demonstrate and promote new cleanup and monitoring technology. Many of these efforts currently involve extensive coordination among federal agencies. A summary of these programs may be found in the Roundtable publication, Accessing the Federal Government: Site Remediation Technology Programs and Initiatives. An advantage to having separately administered efforts is the ability of the sponsoring agency to tailor their program to their own particular cleanup needs while avoiding the possibility of a bottleneck which could result from a centralized effort.

CLEANUP CONTRACTOR LIABILITY

*Question*. Should a contractor's liability be based on the consequences of their performance? In other words, should the contractor be held to a professional standard of negligence rather than one of strict, joint and severable liability?

Answer. Under current law, response action contractors are uniquely situated, in that they are not liable under CERCLA unless the release is caused by conduct of the response action contractor that is negligent, grossly negligent, or which constitutes intentional misconduct. 42 U.S.C. § 9619(a)(2). EPA has not proposed any deviation from this standard.

CLEANUP CONTRACTOR LIABILITY ORPHAN SHARES

*Question*. Who should hold the liability for hazardous waste generation and orphaned sites for government-owned and operated facilities, the government or the operating contractor?

Answer. The Federal government is responsible for compliance and cleanup at Federally owned facilities so these are not "orphan sites". Where EPA has authority under a given statute to initiate an enforcement action against an owner or operator at a Federal facility and the contractor fits the statutory or regulatory definition of an operator, EPA can hold Federal agency, the contractor-operator or both liable. Determinations whether to hold the Federal agency or the contractor-operator liable are made by EPA regional offices based upon site-specific factors, such as whether the contractor is believed to have contributed to the contamination at the facility.

EPA's policy on contractor vs. government agency liability is described in a document titled "EPA Enforcement Policy for Private Contractor Operators at Government-Owned/Contractor-Operated (GOCO) Facilities", issued January 7, 1994. A copy is attached.

SUPERFUND REAUTHORIZATION

*Question.* I congratulate you for the well-intentioned administrative reforms you have sought to implement in the federal Superfund program, and also for your public statements about the need for fundamental statutory changes to increase the pace of cleanups.

According to engineering and construction firms engaged in environmental remediation work around the country, the pace of cleanups has slowed significantly during the lengthy, ongoing debate over comprehensive reauthorization legislation.

The administration proposed a $650 million increase for the Superfund program in its fiscal year 1998 budget request yet has not seen fit to offer comprehensive reauthorization legislation during this Congress.

What assurance can you provide that the Administration will work with Congress to enact comprehensive reauthorization legislation before the end of the current fiscal year?

Answer. Over the past several weeks, Senate Committee staff, the Administration, and a broad based group of stakeholders have been involved in extensive discussions of the issues and concerns surrounding reauthorization of the Superfund law. These discussions are intended to build a common understanding of the issues that require legislative action. During this time, I have met with several members of the Environment and Public Works Committee to stress the importance of enacting Superfund reauthorization quickly. In the House, similar discussions to identify issues that may require legislative action are underway.

I am encouraged by the discussions to date, and have directed EPA staff to continue to build the kind of consensus-based agreement that is a requisite to revision of this law. It is the responsibility of Congress to move legislation forward, so I am not in a position to ensure enactment of legislation this year. We remain committed to working in a bipartisan fashion with Congress and Superfund stakeholders in good faith efforts to develop responsible legislative reform of Superfund this year. That reform must continue to build upon the successes of the current Superfund program and be rooted in common sense.

---

## QUESTIONS SUBMITTED BY SENATOR BENNETT

PRICE COALBED METHANE PROJECT EIS NEPA OVERSIGHT

*Question.* What is EPA's role in the administration of the National Environmental Policy Act?

Answer. The Environmental Protection Agency (EPA) has two major roles in the administration of the National Environmental Policy Act (NEPA). The first role is mandated by section 309 of the Clean Air Act, and requires EPA to review certain federal actions including all environmental impact statements, comment to the lead agency in writing, and make the comments available to the public. It further directs the Administrator of EPA to refer to the Council on Environmental Quality (CEQ) any "* * * legislation, action, or regulation * * *" that the Administrator determines to be "* * * unsatisfactory from the standpoint of public health or welfare or environmental quality * * *."

The second role played by EPA is under a memorandum of understanding with CEQ whereby EPA is responsible for accepting environmental impact statements for filing from federal agencies and publishing each week in the Federal Register a Notice of Availability that starts the official comment period for the documents.

*Question.* What is the relationship between EPA and CEQ with regard to NEPA oversight?

Answer. The Environmental Protection Agency (EPA) and the Council on Environmental Quality (CEQ) have worked closely together through the years in the overall administration of the National Environmental Policy Act (NEPA). CEQ is responsible for NEPA oversight and for issuing regulations and guidance to federal agencies to support their compliance with the Act. EPA is responsible for reviewing individual projects subject to the environmental impact statement requirements of NEPA and, where necessary, referring environmentally unsatisfactory projects to CEQ. The two agencies coordinate their activities to avoid duplication of effort while working to protect the environment from unanticipated adverse impacts from federal actions.

*Question.* Which agency is ultimately responsible for the administration of NEPA?

Answer. The Council on Environmental Quality is ultimately responsible for the administration of NEPA.

PRICE COALBED METHANE PROJECT EIS EPA COMMENTS

*Question*. Is it routine for EPA to comment on the substantive aspects of Environmental Impact Statements prepared by other agencies?

Answer. It is routine for EPA to comment on the substantive aspects of environmental impact statements (EIS's) prepared by other agencies. Section 309 of the Clean Air Act directs the Agency to do so, to comment in writing on the EIS's, and to make those comments public. When we believe that a project is so environmentally unsatisfactory that it is a candidate for referral to the Council on Environmental Quality, we comment to that effect when we review the draft EIS to ensure that the responsible federal agency understands our concerns about the project.

PRICE COALBED METHANE PROJECT EIS UTAH WILDLIFE

*Question*. What sources of information did EPA rely on to base its comments on the management of wildlife in Utah?

Answer. Sources of information used by EPA included the concerns raised in the draft environmental impact statement (DEIS) prepared by Bureau of Land Management, telephone conversations with the Utah Division of Wildlife Resources (UDWR) staff, and the Utah Division of Wildlife Resources' draft comments on the DEIS. The EPA lead reviewer believed that the comments raised valid concerns, and EPA's comments supported the UDWR's concerns.

PRICE COALBED METHANE PROJECT EIS WILDLIFE EXPERT

*Question*. Please identify the wildlife expert employed by EPA which provided the information by which Ms. Campbell relied upon to make the assertions in the December 30 letter.

Answer. The potential for significant impact to wildlife in the project is discussed in the draft environmental impact statement (DEIS). After reviewing the document, Mike Strieby, the EPA Review Team Leader, contacted the Utah Division of Wildlife Resources (UDWR) to discuss concerns raised by review of the document, since the Gordon Creek Wildlife Management Area is managed under an existing Habitat Management Plan approved by the UDWR Habitat Council. The management goals under this plan, jointly administered by UDWR and the Bureau of Land Management (BLM), are "* * * to manage habitats for optimum numbers and diversity of wildlife species with special emphasis on deer, elk, and moose, and to allow regulated public access for consumptive and nonconsumptive uses that do not unduly impact habitat or wildlife during crucial periods" (page 3–42, DEIS).

EPA requested a copy of UDWR's comments and, based on discussion with UDWR, review of its draft comments, and EPA's own review of the draft EIS, the Lead Reviewer for EPA concluded that the Price Coal Bed Methane project goals conflicted with the Habitat Management Plan for the same area. UDWR in its January 2, 1997, letter to BLM also made this same point.

*Question*. Were comments or suggestions provided to EPA by other agencies or commissions of the federal government regarding the impacts of the Gordon Creek Wildlife Management Area prior to December 30, 1996?

Answer. Neither comments nor suggestions were provided to EPA by other agencies or commissions of the federal government regarding the impacts of the Gordon Creek Wildlife Management Area prior to December 30, 1996.

*Question*. Did EPA seek or receive information from any nonprofit or private organization regarding the DEIS and the impacts on wildlife?

Answer. EPA did not seek information from any nonprofit or private organization during its review of the draft EIS. Unsolicited comments were received from the Moab Sportsman's Club concerning wildlife impacts. These comments were consistent with the concerns expressed by the Utah Department of Wildlife Resources; they were not specifically used in EPA's review.

PRICE COALBED METHANE PROJECT EIS WILDLIFE MANAGEMENT

*Question*. How long has EPA been responsible for wildlife management?

Answer. In the review of environmental impact statements, EPA examines the analyses in the document and comments in its areas of jurisdiction and expertise, as directed by the Council on Environmental Quality's NEPA implementing regulations. More broadly, section 309 of the Clean Air Act directs EPA to review the document to determine whether it is unsatisfactory from the standpoint of public health or welfare or environmental quality. EPA considers terrestrial and aquatic habitat concerns to be important elements of environmental quality, and consequently does include comments on habitat issues in its comments. The comments, however, are advisory in nature and EPA cannot unilaterally require another fed-

eral agency to follow its recommendations concerning wildlife management. EPA does believe, however, that its concerns should be addressed for the public record in the final EIS.

*Question*. Does EPA have statutory authority to supersede wildlife management practices and/or the recommendations of states?

Answer. EPA does not have direct statutory authority to impose wildlife management practices on federal agencies or states.

PRICE COALBED METHANE PROJECT EIS CATEGORY RATING

*Question*. I understand that EPA has procedures to evaluate the adequacy of information in EIS's and a category rating system. Where is that system described?

Answer. The category rating system is described in EPA's "Policies and Procedures for the Review of Federal Actions Impacting the Environment," which was published on October 3, 1984. This document was a revision of the original "Environmental Review Manual" dated March 1, 1975.

*Question*. What are the categories?

Answer. The rating system used in the review of draft environmental impact statements (DEIS's) is an alpha-numeric system that rates both the environmental impact of the action and the adequacy of the impact statement. The categories for environmental impact are (1) LO (Lack of Objections), (2) EC (Environmental Concerns), (3) EO (Environmental Objections), and (4) EU (Environmentally Unsatisfactory). The categories for document adequacy are "1" (Adequate), "2" (Insufficient Information), and "3" (Inadequate). Ratings that include an "EU" on project impact or "3" on document adequacy are candidates for referral to the Council on Environmental Quality if the final EIS does not demonstrate that the project will not be unsatisfactory from the standpoint of public health or welfare, or environmental quality.

PRICE COALBED METHANE PROJECT EIS EPA AUTHORITY

*Question*. What is the basis of EPA authority to rate an EIS prepared by another agency as adequate or inadequate?

Answer. Section 309 of the Clean Air Act directs EPA to review and comment in writing on the environmental impact of projects subject to the environmental impact statement (EIS) requirements of the National Environmental Policy Act (NEPA), and to make those comments public at the conclusion of the review. It further directs the Administrator to refer to the Council on Environmental Quality any proposed projects when the Administrator determines that the proposed project is unsatisfactory from the standpoint of public health or welfare or environmental quality.

EPA provides a rating to the lead federal agency which summarizes EPA's level of concern. The EPA review is primarily concerned with identifying and recommending corrective action for the significant environmental impacts associated with the proposal. Review of the adequacy of the information and analysis contained in the draft EIS's is done to support this objective.

PRICE COALBED METHANE PROJECT EIS OEPR

*Question*. What is the Office of Ecosystem Protection and Remediation? What is the mandate of this office? What is its annual appropriation? How many FTE's are employed by this office?

Answer. The Office of Ecosystem Protection and Remediation was formed as part of Region VIII EPA's reorganization in October of 1995. Parts of the previous Hazardous Waste Management Division and the Water Management Division were reorganized to form this new office. The new organization moved away from a statutory/media organization to a functional/strategic principle structure based upon EPA's July, 1994 Five Year Strategic Plan. The guiding principles behind the reorganization included:

—Ecosystem Protection
—Pollution Prevention
—Partnerships with State, Tribal, Federal and Small/Regulated Communities
—Improved Science
—Multi-Media/Sector Strategies and Results
—Enhanced Communication and Public Involvement
—Enhanced Regional Strategic Planning and Implementation
—Reinventing Management.

The Office of Ecosystems Protection and Remediation is responsible for the identification, characterization, and remediation of contaminated areas and sites under CERCLA authorities. This organization is also the focal point for ecosystems protec-

tion coordination and priority setting in the Region. Included in the ecosystems protection activities, are mine waste, NEPA, community based environmental protection, wetlands, water quality standards, non-point source, total maximum daily loads, stormwater permitting, watersheds, Clean Lakes, salinity, water quality monitoring, groundwater activities, source water protection for drinking water, and whole effluent toxicity.

Of the funds that Region VIII received in the fiscal year 1997 enacted operating plan, $32,978.2 thousand was provided to the Office of Ecosystem Protection and Remediation to manage on behalf of the Regions. These "extramural" funds are for the following purposes:

| | *Dollars in thousands* |
|---|---|
| Superfund Site Response & Technical Enforcement Budgets | $11,011.4 |
| Superfund Site Specific Response Funds | 10,034.2 |
| Oil Spill Funds | 205.5 |
| Regional Geographic Ecosystem Protection Initiatives | 870.3 |
| Regional Wetlands Program Funds | 34.4 |
| Non-point Source/319 State Grants | 8,564.6 |
| Water Quality Management Cooperative Agreements | 729.6 |
| Wetlands State/Tribal Grants | 1,528.2 |

Of the above amount, $11,727.1 thousand has been provided to the Ecosystem Protection Program to manage on behalf of the Region. These funds are:

| | *Dollars in thousands* |
|---|---|
| Regional Geographic Ecosystem Protection Initiatives | $870.3 |
| Regional Wetlands Program Funds | 34.4 |
| Non-point Source/319 State Grants | 8,564.6 |
| Water Quality Management Cooperative Agreements | 729.6 |
| Wetlands State/Tribal Grants | 1,528.2 |

Region VIII is allocated 616 FTE in fiscal year 1997, of which 155.7 are allocated to the Office of Ecosystem Protection and Remediation. The Ecosystem Protection Program received 49.2 of the 155.7 FTE.

PRICE COALBED METHANE PROJECT EIS OEPR MANDATE

*Question.* Does EPA's Office of Ecosystem Protection and Remediation share a similar mandate within other federal agencies?

Answer. The Region is not aware of another federal agency organized similarly, although our Regional structure is similar to a number of other EPA Regions. The United States Forest Service, and the Bureau of Land Management, however, do look at problems with managing their lands in a holistic fashion and thus use an ecosystem scale to frame their decisions. EPA Region VIII in organizing the Ecosystem Protection Program recognized that environmental problems are often multimedia in nature, and set up a structure with staff trained in many different media programs that could respond to the complex environmental problems that exist in communities today.

PRICE COALBED METHANE PROJECT EIS ECOSYSTEM PROTECTION

*Question.* Please define ecosystem protection.

Answer. EPA encourages ecosystem management and economic development that promotes the health and productivity of natural systems. Ecosystem protection is the use of our statutory mandates to maintain those ecological functions and processes that are vital for ecosystems and the services that they provide to humans. This protection is focused on specific geographic areas with an emphasis on coordination among federal, state, tribal and local agencies.

*Question.* Describe the role of the states in providing protection to ecosystems.

Answer. States have an important role in ecosystem protection through management of the lands and programs under their control and implementation of their statutory authorities.

*Question.* Does EPA ecosystem protection supersede the role of the states or other federal agencies such as the National Park System, the U.S. Fish and Wildlife Service or the Bureau of Land Management?

Answer. The success of ecosystem protection ultimately depends on the cooperation among all the stake-holders. Consequently, EPA's efforts do not supersede the role of other state or federal programs and, in fact, complement those protective actions.

## QUESTIONS SUBMITTED BY SENATOR LEAHY

### SAB MERCURY REPORT

*Question.* If the Science Advisory Board recommends that the mercury report be released, will the EPA release it?

Answer. The EPA is committed to fulfilling the requirements of the Clean Air Act and to providing Congress with the information it has requested by submitting the Report to Congress on Mercury. If the Science Advisory Board (SAB) is in agreement with the science of the Mercury Study, then the EPA is prepared to make the necessary revisions, obtain the required Administration clearance and release the report.

*Question.* After that recommendation, what steps need to be taken before the report is made final?

Answer. First, the comments and suggestions made by the SAB will be reviewed by EPA staff scientists responsible for the study. They will assess the effort needed to respond to the comments and provide EPA management with a summary of the required analyses, a technical plan to complete such analyses, an estimate of resources and a schedule. Depending on the extent of the SAB comments, the revisions may need to be reviewed by a sub-group of SAB committee members if the committee members request such a review. After final revisions and internal EPA clearance, the report will be submitted to the Office of Management and Budget (OMB). The OMB will then coordinate a Federal interagency review, which for this report has typically involved about twelve Departments or agencies. The report will likely be revised a final time in response to the interagency review, cleared by OMB and then submitted to Congress.

*Question.* During the February meeting of the SAB mercury review panel, several of the questions that EPA initially raised in referring the study to the SAB were addressed, what remaining questions remain for the SAB to reach conclusion on?

Answer. The EPA posed about 40 detailed questions, which covered a wide variety of scientific issues, to the SAB review committee. The SAB panel was very diligent in its review and discussed all of these questions during the 2-day February 1997 meeting. Thus, EPA believes that of the initial charge, there are no remaining questions for the SAB to reach conclusion on. However, EPA is still waiting for the written SAB response presenting their assessment.

In addition, there was a second charge also posed to the SAB which asked for their help in convening an independent review panel to assess data which will be forthcoming from two ongoing studies of human exposure to mercury through fish consumption. However, this effort will not take place until sometime in the future, at which point EPA will again seek the advice of the SAB.

### AIR QUALITY REGULATION OF UTILITIES

*Question.* In Assistant Administrator Mary Nichols's March 28, 1997 letter to Representative Markey, EPA stated that "if environmental control costs are not appropriately internalized in the cost of electricity generation, retail competition could result * * * in increases in overall emissions." The letter goes on to recommend a cap and trade system where it is necessary and appropriate to protect public health and welfare. What steps has EPA taken to implement such a system?

Answer. EPA is working with regional bodies such as the Ozone Transport Commission (OTC) and the Ozone Transport Assessment Group (OTAG) to facilitate cap and trade approaches which offer flexible, low-cost approaches to emissions reduction. EPA assisted the OTC in the development of a model $NO_X$ cap and trade rule for that 13-state region. Moreover, at the request of the OTC, EPA is modifying its Emissions Tracking System (ETS) and Allowance Tracking System (ATS) software to accommodate the OTC's need for seasonal data on $NO_X$ emissions from electric power plants and other large industrial combustion sources to record $NO_X$ allowance trades. EPA has also encouraged states to adopt a cap and trade approach for $NO_X$ emission reductions in the 37-state OTAG region.

EPA is committed to reducing long-distance transport of $NO_X$, which contributes to exceedences of the public health standard for ozone in downwind areas. On April 16, 1997, EPA Assistant Administrator Mary D. Nichols wrote to OTAG Chair Mary Gade stating the Agency's preliminary conclusion that at least 26 states will be required to make $NO_X$ reductions because of their contributions to pollution transport. EPA intends to address this matter in a formal rulemaking after we receive OTAG's technical analyses and final recommendations, which are scheduled to be completed in June of this year. Through SIP calls, EPA can establish a maximum amount of $NO_X$ emissions for each of the states that contribute to pollution transport. We can, and will, strongly recommend to those states that they meet their statewide limits

through a coordinated, regional cap and trade mechanism. We believe states will find such a mechanism attractive because of its flexibility and cost-effectiveness. While we can recommend a particular implementation approach, EPA cannot require states to employ it. As long as states achieve the necessary emission limits, states have the discretion to choose the specific means of implementation.

*Question.* What areas of the country do you foresee as being impacted to the extent necessary to implement a cap and trade system to protect public health?

Answer. EPA notes that the 48 contiguous states are already subject to a market-based cap and trade system for sulfur dioxide under Title IV of the Clean Air Act Amendments of 1990. EPA believes that this same area could be affected by a cap and trade system for pollutants such as $NO_X$. A nationwide cap and trade system for $NO_X$ emissions would reduce background levels of $NO_X$ (facilitating attainment and maintenance of the ozone standard) and would provide a level playing field for all power plants.

*Question.* What other market-based alternatives are there to address the competitive advantage of older, higher emitting power plants?

Answer. The problem of older, higher emitting power plants could be addressed through a uniform emission limit that is fuel-neutral and output-based. Market forces would help to determine the mix of compliance strategies chosen. However, because such an approach would apply uniformly to all power plants without regard to differential cost effectiveness, EPA believes that such an approach would be less cost-effective than a cap and trade approach for the same degree of emission reductions. With regard to cap and trade, there are a number of possible variations in approach. Allowances could be distributed either through an allocation process or through an auction. If allowances are allocated, the allocation could be made in a variety of ways. For example, allocations could be made according to historic emissions or according to a performance standard that applies equally to all sources.

*Question.* Are there current estimates of how much ozone, fine particulate, mercury, and other pollution would be reduced if these power plants were required to comply with new source performance standards upon reaching a certain age, say 30 or 35 years?

Answer. The Agency has not conducted an analysis of reductions in ozone, fine particles, and mercury if power plants were required to comply with new source performance standards upon reaching a certain age. However, under EPA's Clean Air Power Initiative (CAPI), the Agency projected large reductions of ozone, fine particles, and mercury from electric power plants using a cap and trade approach.

*Question.* Finally, what recommendations did the EPA make to the Department of Energy in crafting the Administration's utility restructuring legislation?

Answer. In response to a congressional request, EPA recently indicated that the Clean Air Act and other statutes provide Federal and State regulators with considerable authorities designed to address the environmental problems contributed to, or caused by, electric generating plants, but that because these authorities are not integrated to address the many environmental problems related to the electric power generation industry, they are not as economically efficient as they could be, and they create unnecessary levels of uncertainty which are bad for industry and government alike. EPA has indicated to DOE that it strongly supports increased competition in the electric generation sector. We believe that the economic benefits of competition can be achieved along with protection of public health and the environment and that in the long run competition will be good for both the environment and the consumer. EPA recommended the following legislative principles to ensure that the transition period will not result in unacceptable environmental degradation:

*Emission Caps.*—For a competitive electric market to work efficiently, we need to internalize the cost of pollution from this sector. We believe that this can best be accomplished with legislative language that gives us the specific authority to cap utility emissions at levels that will adequately protect public health and welfare. This provision is important to our current efforts to meet ambient air quality standards and toxics loadings, but will be equally important to any future requirement to limit carbon dioxide emissions under a global climate change agreement.

*Consumer Information.*—In a competitive market, consumer information is essential to informed choice and an efficient marketplace. EPA believes that the environmental characteristics of electricity generation should be clear and publicly available.

*Energy Efficiency.*—The new market must support and recognize the economic and environmental benefits of energy efficiency and demand side management. EPA favors a mechanism which ensures the viability of this important resource.

*Renewable Energy.*—A healthy renewable energy sector must be maintained in the United States to meet both our environmental and energy security needs. A market for clean power is essential for the future.

*Federal Power Act.*—EPA believes that the FERC, in regulating interstate power markets, should include environmental impacts along with other economic considerations.

*Stranded Cost Recovery.*—With respect to stranded cost recovery, we believe that States should be discouraged from allowing ratepayer subsidies that would prolong the lives of inefficient, dirty generating plants that could not survive without those subsidies in a competitive marketplace.

AIR QUALITY FERC OPEN ACCESS RULE

*Question.* When the Administration concluded last year that utility restructuring would not result in an increase in air pollution, it assumed that new regulations for ozone and particulates would be in place. If opponents of the proposed regulations succeed in derailing these standards, will the environmental impact of competition in the utility industry conducted for the FERC ''open access'' rule be reviewed?

Answer. While the OTAG process is taking longer than expected, OTAG's final analysis and recommendations are expected in June 1997. EPA is committed to moving forward with a rulemaking to address pollution transport related to ozone after we receive OTAG's analysis and recommendations. Reduction of precursor transport is likely to be a major strategy for implementation of a fine particulate standard, if promulgated. EPA believes that the potential exists for emissions to increase as a result of industry restructuring if actions are not taken to reduce emissions of $NO_X$ and fine particulate precursors.

AIR QUALITY CEQ COMMITMENTS

*Question.* When the ''open access'' rule was made last year, the Administration delayed actions to mitigate potential air pollution increases from utility restructuring by deferring to the Ozone Transport Assessment Group (OTAG). The Council on Environmental Quality committed EPA to a series of actions if the OTAG process fails. Although OTAG has produced valuable analytical work on ozone transport, it does not appear to be approaching consensus on mitigation actions. What specific plans, separate from the OTAG process, do you have to meet the commitments made last June by CEQ to protect against these increases?

Answer. At this time EPA remains hopeful that the OTAG process will reach a consensus on a solution to the $NO_X$ transport problem. In the meantime, as indicated in answers to earlier questions, EPA has assured the OTAG states that the agency will issue a rulemaking on ozone transport this summer after receiving OTAG's final recommendations. In the event that the OTAG process does not achieve a consensus solution, FERC has committed to initiate a notice of inquiry into potential mitigation measures related to its open access rule. Moreover, should EPA find it necessary to impose federal implementation plans (FIP's) to address the $NO_X$ transport problem, FERC has agreed to undertake a rulemaking on mitigation strategies.

AIR QUALITY ACID RAIN REDUCTIONS

*Question.* Under the clean air sub-goal of controlling acid rain, a 25–40 percent reduction is sought in the eastern U.S. by 2005. What is the current level of reduction since 1980?

Answer. A recent wet deposition trend analysis indicated that wet sulfur deposition (''acid rain'') decreased 10 to 25 percent in 1995 over large areas of the eastern U.S. as compared to the 1983 to 1994 trend line. These decreases are considered substantial in magnitude and spatial extent. Another analysis which examined dry deposition data indicated that dry sulfur deposition decreased by 30 percent in the eastern U.S. between 1989 and 1995.

*Question.* What areas of the eastern U.S. have seen the greatest and least reductions?

Answer. With implementation of Phase I of the Acid Rain Program, Northern New England and the Mid-Atlantic region saw the largest wet sulfur deposition reductions in 1995, between 20 and 25 percent from the 1983 to 1994 trend line. 1995 data showed the largest decreases in and downwind of the Ohio River Valley. Wet sulfur deposition increased by 7.5 percent in the western U.S. Wet nitrogen deposition increased slightly by almost 5 percent in the eastern U.S. and increased by almost 4 percent in the western U.S. Another analysis indicated that dry sulfur depo-

sition was reduced by 30 percent in 1995, relative to 1989 levels; results were similar across the eastern U.S.

*Question.* How do the EPA activities to reach the 2005 goal account for potential increased demand for electricity under utility restructuring?

Answer. Because sulfur dioxide emissions are capped by Title IV of the Clean Air Act Amendments of 1990, any increase in electricity demand would not affect total SO emissions in the long term. Any increase in electricity generation would need to be offset by sources reducing their in emission rates to meet the Title IV SO cap.

### $NO_X$ FISCAL YEAR 1998 FUNDING

*Question.* In the fiscal year 1998 request, an additional $681,000 is requested to address $NO_X$ issues in the Northeast. Where will these funds be allocated?

Answer. The Agency has requested an increase of $414,620 to address $NO_X$ issues in Northeast. This money will support salaries for 2 EPA employees in Headquarters and 3 employees in the Regions. The remaining of $181,780 covers increased workforce costs in the base.

*Question.* What activities will be undertaken with these additional funds?

Answer. These funds will be used to continue development and implementation of an emissions tracking system and an allowance tracking system for the Ozone Transport Commission's (OTC) $NO_X$ budget program. The $NO_X$ budget program is the result of a collaboration between interested states in the Northeast to reduce $NO_X$ from stationary sources using a cap and trade approach. EPA has offered to track $NO_X$ emissions and allowances for the OTC by modifying and expanding the existing Acid Rain data system used to track sulfur dioxide allowances and nitrogen oxide emissions.

### SAFE DRINKING WATER ACT NATIONAL MEETINGS

*Question.* In the fiscal year 1998 request under the Safe Drinking Water Act amendments of 1996, new prevention approaches, EPA states that the Agency plans to hold national meetings in 1997 to scope out partnership duties and to identify current and new operator training and certification programs. How many of these meetings will be in the Northeast and what locations and dates is EPA considering?

Answer. The Agency has already formed its operator certification partnership and has held one meeting in Washington, D.C. on March 25 and 26, 1997. Another meeting has been scheduled in Washington, D.C. on June 5 and 6, 1997. The partnership will decide at the end of this meeting when and where the next meeting should be held. In establishing the partnership, the Agency has tried to obtain representatives from various interests and from different geographic locations, including one member from the Northeast.

The partnership will provide advice to the Agency, through the Drinking Water Advisory Council, as it develops information and guidelines to meet new Safe Drinking Water Act requirements. A draft of the guidelines will be circulated widely for comment before it is finalized. We have not made any definite plans to hold stakeholder meetings to review the guidelines as yet, however, if we do so, we will consider holding a meeting in the Northeast.

### SAFE DRINKING WATER ACT STATE SOURCE WATER

*Question.* The 1996 SDWA amendments also expanded authorization for source water protection. When will EPA guidance for this program be made available? Which states have used 1997 state revolving funds for state source water assessments? Under the current program or under the 1996 amendments will states be able to use SDWA funds to purchase land or easements for source water areas? Are there areas where this has already been done? What is the process for using SDWA funds for this type of activity?

Answer. The draft guidance for State source water assessment and protection programs, which was developed in consultation with many stakeholders, was released by EPA on April 4, 1997 to the public. As part of its ongoing discussions, EPA will convene a meeting of New England States on May 28th in Worcester, Massachusetts and May 29th in Concord, New Hampshire. We plan to publish the final guidance on or before the statutory deadline of August 6, 1997.

In the final Drinking Water State Revolving Fund (DWSRF) Guidelines, EPA strongly encouraged States to determine the level of activities that needed to be undertaken in order to complete source water assessments in the State, and then utilize necessary funds, up to 10 percent from the 1997 DWSRF capitalization grant. The most recent survey of States in April 1997 showed that approximately three-quarters of the States plan to use funds for source water assessments. As EPA reviews the State capitalization grant applications, States' actual use of the assess-

ment set aside will be tracked and EPA will ask States that do not intend to use the set-aside to demonstrate how they intend to meet the requirement to complete their source water assessment programs.

Under Section 1452(k)(1)(A)(I), States may make loans to public water systems to "acquire land or a conservation easement from a willing seller or grantor, if the purpose of the acquisition is to protect the source water of the system from contamination and to ensure compliance with national primary drinking water regulations." The final DWSRF Guidelines provides the States with the flexibility to use loan repayments from land acquisition and source water projects for future projects of a similar nature if the State so chooses, or the State may direct these repayments into the DWSRF project fund. This flexibility would allow States the option to develop a long-term program to fund land acquisition and source water projects.

To date, no DWSRF funds have been used for land acquisition or conservation easements, or source water projects. Only one State, Georgia, has received its capitalization grant. Georgia's intended use plan (IUP) indicated that it will use 6 percent of its capitalization grant for source water assessments, but no fiscal year 1997 funds are planned for source water protection loan activities. Prior to the SDWA Amendments of 1996, public water systems purchased land and easements in order to protect source waters. For example, Seattle, Washington, and Portland, Oregon purchased the entire watershed that supplies water to their public water system.

Prior to awarding DWSRF funds under Section 1452(k)(1)(A)(I), EPA must approve a State's capitalization grant, which includes the Intended Use Plan (IUP), and the State must develop a workplan which provides specific details on how the State will use these (k)(1)(A)(I) loans. Once a State has an approved workplan, it may make the loans to public water systems consistent with the IUP and work plan, and as permitted by State law, regulations and procedures.

BROWNFIELDS INITIATIVE IN RURAL AREAS

*Question.* The Administration requests a significant funding increase for the Brownfields initiative in fiscal year 1998. How much of this funding increase is targeted towards rural Brownfields sites? Where are these located and what type of industry is involved? Has the EPA worked with the U.S. Forest Service to identify potential Brownfield pilot sites in the Northeast?

Answer. The selection process for the Brownfield assessment pilots is competitive, based on an objective set of criteria. The funding increase for the Brownfield initiative in fiscal year 1998 does not have a targeted amount that will go toward rural Brownfield sites. There are currently 14 rural and small town pilots, which have populations of less than 50,000, of the existing 78 pilots. They are located and have the following types of industry involved:

—Burlington, VT (Commercial and Industrial)
—Bonne Terre, MO (Mining)
—Cape Charles, VA (Eco-Industrial Park)
—Concord, NH (Railyard, Maintenance Sheds, Gas and Steam Plants, and Factories)
—Chippewa County, MI (Former DOD Base)
—Emeryville, CA (Widespread Groundwater Contamination, source unknown)
—Murray City, UT (Smelter)
—Panhandle Health District, ID (Smelter)
—Lima, OH (Industrial Park)
—Prichard, AL (Volatile Organic Carbon in Drinking Water and Semivolatile Organic Carbon in Soil)
—Navajo Nation, AZ (Wood Processing)
—Phoenixville, PA (Iron and Steel)
—West Jordan, UT (Mining, Smelting, Sugar, Copper, Lead, Zinc, and Silver Industries)
—Rome, NY (Lead in Soil and Chlorinated Solvent in Groundwater).

EPA is in the process of forming a Partnership Agenda with other Federal Agencies. The U.S.D.A. and Forest Service have participated in our meetings and contributed to the Agenda. The Forest Service is currently working with the Cape Charles, VA Brownfield pilot. The National Park Service's Urban Resources Program is meeting with EPA Region 9 to identify potential links with Brownfield pilots.

LAKE CHAMPLAIN ACTION PLAN

*Question.* In two recent letters on implementation of the Lake Champlain Action Plan, EPA has committed itself to implement the pollution prevention and restoration plans. The July 22, 1996 letter from Assistant Administrator Perciasepe mentioned "significant resources that can be devoted to the special problems faced by

Lake Champlain." What programs has EPA used to target problems in Lake Champlain?

Answer. The Agency continues to be a partner in the Lake Champlain Basin Program, and, in cooperation with the States, has used a variety of programs to support activities in the Basin through technical assistance, grants for base State programs, and targeted project grants. The programs that have supported activities are: the Clean Water Act (CWA) including State Revolving Fund (Title VI), Construction Grants (Title II), Nonpoint Source Grants (Section 319), Wetland Program Grants, Pollution Control Grants (Section 106), Water Quality Cooperative Agreements and Appropriation earmarks.

*Question.* Over the past five years, how much funding has gone to Lake Champlain though these programs?

Answer. Since fiscal year 1993, over 60 million dollars has been provided through these programs to support work in the Lake Champlain Basin.

*Question.* Of that funding, which funds were through state revolving funds or state delegated programs?

Answer. Over the past five years, $41 million has been provided through the Clean Water State Revolving Fund to support programs in the Lake Champlain area. While not included in the figure above, substantial resources from the Clean Water Act, Section 106 Pollution Control grants have benefitted the Lake through base program permitting and enforcement.

LAKE CHAMPLAIN MANAGEMENT PLAN ANNUAL FUNDING

*Question.* If EPA were to create a dedicated Lake Champlain initiative to address the actions identified for EPA participation in the Lake Champlain Management Plan, what level of annual funding would be required and which EPA programs would be drawn upon?

Answer. EPA will continue to support water quality protection efforts in the Lake Champlain Basin, including providing active participation on the management conference and working with the States to direct available grant funds to activities in the Basin as determined by State priorities. EPA participation in the Plan will continue to involve technical staff support and support to State agencies through available water quality grant programs such as the Nonpoint Source Grant program, the Clean Water State Revolving Fund, Wetlands Program grants, and Water Quality Cooperative Agreements.

NATIONAL INVASIVE SPECIES ACT OF 1996

*Question.* In his July 22, 1996 letter, Mr. Perciasepe also mentioned EPA's support of the National Invasive Species Act of 1996. With the passage of NISA, what activities is EPA undertaking to address invasive species?

Answer. EPA is one of the participating agencies serving on the Aquatic Nuisance Species Task Force. The Task Force is responsible for coordinating inter-governmental actions to reduce the risks from nuisance species. Much of the task force work has focused on control of ballast water and review of control programs for nuisance species (e.g., round goby, ruffe).

Various EPA programs are addressing invasive species. A number of EPA's Regions are involved in inter-agency working groups within their regions to address nuisance species in the context of NISA. EPA's Office of Research and Development has developed risk assessments for nuisance species as part of their effort to develop ecological risk assessment guidelines for biological agents. NISA Sec 1202(I)(2) calls for EPA, in conjunction with NSF and the Task Force, to develop an annual call for research proposals to study dispersal containments for nuisance species.

The Chesapeake Bay Program has completed an Implementation Plan for managing the introduction of non-indigenous aquatic species. The plan is intended to minimize the economic and/or ecological risks associated with first time introduction of non-indigenous aquatic species. In the Great Lakes, EPA has begun a project that will focus on prevention and control, ecological impacts, geographic extent, and information/outreach. The Gulf of Mexico Program will be initiating a strategic assessment process to evaluate the effectiveness of current programs and the needs of program shareholders to reduce and prevent the introduction of undesirable, non-indigenous species (including ballast water). The Gulf Program will support through financial and technical assistance Gulf state and local efforts to reduce and prevent the introduction of undesirable, non-indigenous species (including ballast water). EPA chairs the Washington State Exotic Species Work Group which has developed an Implementation Plan for addressing marine exotic species in Puget Sound. The Agency is also working closely with the British Columbia Exotic Species Work Group in developing a similar implementation plan.

*Question.* Has EPA identified funds within the Clean Lakes program to address this issue?

Answer. The Clean Water Act (CWA) Section 314 Clean Lakes program has not been funded for several years. EPA has encouraged States in its Nonpoint Source Program guidance to use Section 319 Nonpoint Source grants to fund eligible watershed management activities that might have been funded in previous years under Section 314.

LAKE CHAMPLAIN PROJECTS FUNDING

*Question.* What other lakewide projects were funded in the fiscal year 1997 budget or the fiscal year 1998 request?

Answer. Our 1998 request does not include targeted funding for lakewide projects, though our request includes a number of State grant programs (such as Nonpoint Source, Wetlands Program, and Water Quality Cooperative Agreements) under which such projects can be funded at the State's discretion. In addition, activities included in a state's Nonpoint Source Plan are eligible for funding under the Clean Water State Revolving Fund. Our 1997 request, likewise, did not include targeted lake projects, though the appropriation included earmarks (along with the earmark for Lake Champlain) for Five Island Lake, Lake Hollingsworth, and for Skaneatles, Owasco and Otisco Lakes.

*Question.* What EPA programs were they funded under?

Answer. These projects were not funded under existing EPA grant programs, but rather were explicitly directed in the 1997 Appropriation conference report.

GREAT WATER BODIES

*Question.* In the fiscal year 1998 request, $37 million is requested for the Great Water Bodies program component. What activities are conducted under this program and where are funds allocated?

Answer. The Great Water Bodies program component, within the Office of Water, is comprised of the Chesapeake Bay Program Office, the Great Lakes National Program Office and the Gulf of Mexico Program Office.

*The Chesapeake Bay Program Office (CBPO):* The Agency requests a total of $19,683,000 and 16.8 total workyears in 1998 for the Chesapeake Bay Program. The Chesapeake Bay Program (CBP) will develop, implement and monitor interstate management plans for pollution prevention and control activities to improve the water quality habitat in the Bay Region. This will be accomplished by integrating efforts for addressing point and nonpoint sources of pollution from air, water and land-based sources through the watershed and airshed approach and by coordinating with both state and Federal natural resources agencies, local governments, land managers and various stakeholders.

The CBP will evaluate, and communicate the progress of these interstate plans by using quantifiable environmental goals and indicators for the nutrient, toxics, habitat, living resources and land stewardship aspects of the program. New efforts, and possibly corrective measures, will likely be implemented based on the results of the 1997 Nutrient Reduction Strategy Reevaluation, and its recommendations for achieving the year 2000 nutrient reduction goal. Recommendations will be made to the Chesapeake Executive Council for new or refined goals and strategies to improve water quality and living resources conditions of the Bay. Expanded public awareness programs and public access to Bay restoration information will be a major focus. This will be accomplished through regular public reports, continued maintenance of Internet information resources, and the maintenance of the Chesapeake Information Management System in accordance with a directive of the Chesapeake Executive Council. These communications will be aimed at providing information on the State of the Bay and what citizens can do to reduce pollution at the source.

The CBP will work directly with state and local governments to meet the commitments of the ten tributary strategies for nutrient reduction adopted from 1994–1996. Increased efforts will be made to further involve and expand the role of local governments in the CBP. Some of these efforts will be aimed at improving nutrient reductions at Publicly Owned Treatment Works (POTW's). Implementation of nonpoint source projects on farmlands and urban areas will continue to yield nutrient reductions meant to meet tributary specific and Bay-wide environmental goals. New technologies and approaches will be supported for point and nonpoint source controls to close the gap between goals and current progress. In addition, efforts will focus on linking air deposition sources of nitrogen and toxics pollution to the health of the Bay and developing cost effective control strategies.

EPA will continue to address the commitments of the Chesapeake Bay Basinwide Toxics Reduction and Prevention Strategy of 1994. The 1998 obligations include: implementation of management actions (reduction, prevention, protection, assessment) for designated geographical areas; revision of the basinwide toxics loading and release inventory; establishment of reductions goals for atmospheric deposition, urban stormwater, and acid mine drainage loadings to the Bay; establishment of water quality and/or sediment quality criteria for the designated Bay Toxics of Concern; implementing Business for the Bay, a pollution prevention program; and reporting progress on implementing the Strategy.

By funding identified fish passage projects, CBP will work to achieve the five and ten-year goals for stream miles opened to migratory fish. Efforts will be increased to ensure that the 1998 goal of the reopening of 582 miles of migratory fish spawning habitat will be met. Most of these projects will include funding from both private and public sources. In addition, wetlands, stream and forest restoration, oyster reef habitat restoration and the implementation of a riparian forest buffer policy will yield progress toward restoring critical habitat in the basin.

*The Great Lakes National Program Office (GLNPO):* The Agency's Great Lakes program includes $13,326,400 and 46.2 workyears in the Great Lakes National Program Office. EPA's Great Lakes Program utilizes a multimedia approach to Great Lakes ecosystem management, emphasizing geographic targeting, risk-based prioritization and coordinated cooperative efforts on the parts of states, tribes, other Federal agencies, industry, non-governmental organizations, and Canada. The Program monitors Lake ecosystem indicators; manages and provides public access to Great Lakes data; helps communities address contaminated sediments in their harbors; supports local protection and restoration of important habitats; promotes pollution prevention through activities and projects such as the 1997 Canada-U.S. Binational Toxics Strategy; and provides assistance to implement community-based Remedial Action Plans (RAP's) for Areas of Concern and for development and implementation of Lakewide Management Plans. Fiscal year 1998 Lake indicator activities will include reporting results of modeling scenarios from the monitoring of Lake Michigan air, water, sediments, and biota (the Lake Michigan Mass Balance Study), supporting the Great Waters provision of the Clean Air Act and § 118 of the Clean Water Act. This will enable the Agency and its partners to determine how to further reduce Great Lakes pollutants. Principal LaMP and RAP activities will include implementation of remedial actions to address toxics in targeted Areas of Concern and other priorities under the LaMP's for Lakes Ontario, Michigan, Erie, and Superior.

*The Gulf of Mexico Program Office (GMPO):* The fiscal year 1998 allocation for the Gulf of Mexico Program within the Coastal Environmental Management (CEM) program element is $4,292,300 and 13.8 workyears. The Gulf of Mexico Program priorities are to protect the Gulf of Mexico from the deleterious effects of nutrient enrichment; reduce adverse health effects resulting from the consumption of raw shellfish harvested from the Gulf of Mexico; protect and restore essential Gulf of Mexico habitats; reduce the ecological and economic impact on living resources in the Gulf of Mexico by reducing/preventing the introduction of undesirable, nonindigenous species; improve the ability of the American public to participate in the protection of public health and the environment by increasing the quality and quantity of general environmental education, outreach, and data availability programs.

In fiscal year 1998 the Gulf of Mexico Program will establish a quantitative goal for nutrient loadings from the Mississippi River Basin into the Gulf of Mexico through a broad-based, shareholder process. Activities to support this objective are to provide support to the states of Louisiana and Mississippi in monitoring nutrient loads from major tributaries and sources and in implementing innovative, prevention approaches to reduce nutrient loading to surface waters; to coordinate nutrient modeling efforts among state and federal agencies and develop the modeling/decision support capacity to target future actions and report environmental progress; and to support targeted state and federal education and communication efforts to foster voluntary actions by industries and landowners to reduce nutrient pollution.

By fiscal year 2005, the Gulf of Mexico Program will reduce adverse health effects resulting from the consumption of raw shellfish harvested from the Gulf by increasing the number of shellfish beds available for safe harvesting by 10 percent in five coastal estuaries. Activities in fiscal year 1998 will include: Barataria-Terrebonne, Louisiana and Mobile Bay, Alabama shellfish growing water restoration implementation plan completion and project implementation started; shellfish assessment planning and implementation for three additional Gulf estuaries will be initiated, one for each year fiscal year 1999, fiscal year 2000, and fiscal year 2001.

By 1999, the Gulf of Mexico Program will establish the scope of efforts and quantitative goals for the protection and restoration of essential habitat. Activities in fiscal year 1998 will include to initiate a strategic assessment process to evaluate the

effectiveness of current programs and the needs of Program shareholders to protect and restore essential habitat; to support through financial and technical assistance Gulf state and local efforts to target specific habitat areas for protection and restoration.

By 1999, the Gulf of Mexico Program will establish the scope of efforts and quantitative objectives for the reduction and prevention of impacts resulting from the introduction of undesirable, nonindigenous species. Activities in fiscal year 1998 are to initiate a strategic assessment process to evaluate the effectiveness of current programs and the needs of Program shareholders to reduce and prevent the introduction of undesirable, nonindigenous species (including ballast water); to support through financial and technical assistance Gulf state and local efforts to reduce and prevent the introduction of undesirable, nonindigenous species.

By 2005, the Gulf of Mexico Program will provide effective communications of Gulf-related environmental issues and activities to every Gulf coastal county and parish. Activities in fiscal year 1998 are to develop and distribute environmental curricula support programs for primary and secondary school systems; to support state and community-led environmental information centers in each of the five Gulf states; to develop more effective community access to Gulf marine research and science through the Gulf Information Network.

LIVING MACHINE: WASTEWATER TREATMENT

*Question*. Last month EPA released a report to Congress on the "Living Machine" Wastewater Treatment Technology. Do you believe that the 11-week period of observation at the Maryland facility which was used as the basis for this report, is representative or typical of the long-term performance of the facility? Might an analysis during a more stable period of the plant's operation have yielded different results?

Answer. The 11-week independent testing period at the Frederick, MD, facility was scheduled to be run during a period of steady-state operating conditions while the facility ran at design capacity flow rates. The disruption in performance that resulted from the switch in chemical usage was discussed in detail in the Interim Report issued on the Frederick, MD, project in September 1995 (EPA 832–B–96–002) and was also summarized in our recent Response to the Appropriations Subcommittee.

While the project steady-state operations and performance during the 11-week test period were disrupted somewhat by a switch from acetate to methanol as a carbon source for denitrification, this impact was not significant. It had no apparent effect on the follow-on 3-week evaluation of the treatment performance of treatment trains with vs without the floating vegetation cover on the open tanks. When the data generated during the test period were plotted in our Response, along with the data generated by the grantee, the performance levels were very close prior to and after the period of disruption.

The cause of the disruption in performance was taken into account when EPA developed our findings—that the AEES "Living Machine" has the potential to produce an effluent with: 5-day biological oxygen demand ($BOD^5$) <10mg/1, Total Suspended Solids (TSS) <10mg/1, Ammonia ≤1mg/1, Nitrate-Nitrogen ($NO^3$) ≤5mg/1, Total Nitrogen (TN) <10mg/1, and fecal coliforms <200 cfu/100ml—which would satisfy all of the specified treatment goals for the Frederick, MD, project, except Total Phosphorus (TP). As a result, if the testing had occurred during a more stable period of plant operations, the Agency doubts that the final conclusions drawn from the results of the testing would have been any different.

LIVING MACHINE: ACCURATE REPORTING

*Question*. The report states that the Maryland Living Machine "did not meet any of its treatment goals during the study period, with the exception of TSS." Wouldn't a more accurate reporting of the facility be that except for the 11-week period during which EPA studied, the plant reliably met its goals for BOD, COD and TSS in its final year of operation?

Answer. The Response to Congress on the AEES "Living Machine" as well as the earlier Interim Report on the Frederick, MD, facility stated that during the 11-week independent testing period, the facility "did not meet any of its treatment goals during the study period, with the exception of TSS" because this is a matter of fact relative to the 11-week testing period. Since the Interim Report only addressed the 11-week testing period results and was drafted in 1995, it could not address the facility's performance during its final year of operation. Still, this report concluded that the AEES "Living Machine" has the potential to produce an effluent with: $BOD^5$ <10mg/1, TSS <10mg/1, Ammonia <1mg/1, $NO^3$ ≤5mg/1, TN <10mg/1, and fecal coliforms <200 cfu/100ml—which would satisfy all of the specified treatment goals for

the Frederick, MD, project, except TP. While the final version of the Response to Congress also makes a similar statement about the 11-week testing period performance, the report clearly states in the conclusions that the "Living Machine," in the present configuration, can reliably meet process goals for removal of $BOD^5$, TSS, and Ammonia, can produce an effluent with fecal coliforms at <200 cfu/100ml, and has the potential to achieve target removal requirements for nitrate and total nitrogen. The report also presents graphics demonstrating this fact for the Frederick, MD, system's final year of operation. No original target COD goals were established by the grantee for the Frederick, MD, facility.

LIVING MACHINE PEER REVIEW

*Question.* Because of the anomalies that existed during the 11-week study period, a peer review of the report might provide further insight into the reliability of the data and its interpretation. Will you agree to have the report peer reviewed?

Answer. The Interim Report on the Frederick, MD, facility which reported the results of the EPA 11-week independent testing effort was both formally and informally peer reviewed. Input provided by our reviewers was carefully addressed in putting together the final version of the "Interim Report" that was published and has been circulated to interested parties. The report and peer review procedures we employed were subjected to a detailed audit by the Agency's review of our peer review processes earlier this year. The Response to Congress report was intended to provide EPA's response to questions regarding the status of the four demonstration projects and future funding recommendations. It relied heavily upon the earlier, peer-reviewed "Interim Report on Frederick, MD, Facility" and data supplied by the grantee in progress reports. The Agency felt it was not necessary to subject the Response to Congress report to formal peer review, but did seek informal review by EPA Headquarters, the EPA/ORD-Cincinnati laboratory, EPA Regional staff, and the grantee prior to finalizing the document.

LIVING MACHINE UPDATES

*Question.* The report includes information from the first four months of steady-state operations at the South Burlington Vermont Living Machine. Although already reflecting improved performance, the numbers do not show the degree of stability that has been achieved since that time. Despite the cold Vermont winter, the Living Machine has met every target in the last few months. Does EPA intend to supply Congress with updates to this report that describe the ongoing improvements to effluent treatment?

Answer. EPA currently intends to prepare a final report in the form of an Emerging Technology Assessment of the AEES "Living Machine" and related technologies based upon all of the data generated by the four demonstration projects, as well as from previous pilot-scale projects, vendors, and other sources. The Agency plans to have a draft of this document available by the end of September 1997. The document will be thoroughly peer reviewed and opportunities will be provided for input and comment by all interested parties. Copies of this document will be provided to Congress.

LIVING MACHINE WASTEWATER TREATMENT INTANGIBLES

*Question.* In determining the cost/benefit of EPA regulations and standards the Agency must often weigh intangibles such as quality of life, and improved health. The Living Machine has intangibles of its own that do not appear to be addressed in the report. Operating a wastewater plant which uses fewer chemicals than standard plants and incorporates natural biological decay processes is more environmentally friendly and raises awareness about the issues of waste treatment facing communities. The South Burlington plant in particular has developed an extensive educational program which has introduced school students from throughout the area to the problem of waste management. Students have gone on to conduct experiments of their own using mini-Living Machines which they take back to their classrooms to study. Shouldn't EPA incorporate these qualities into its analysis of the Living Machine, as it does when weighing the benefits of regulatory policies? What other steps is the Agency taking to raise awareness about waste management, and could the Living Machine be incorporated into those activities?

Answer. The Agency is requesting that the grantee provide better documentation of the additional values as a part of their efforts to document the benefits of the technology.

Claims made by the developers of the AEES "Living Machine" technology that the technology cleans wastewater to advanced treatment standards using "natural solar powered greenhouse based technology without chemicals" were addressed in the Re-

sponse to Congress report as misleading—the available data indicates that these systems use about the same mechanical energy sources (at the same levels) and the same chemicals as many of the conventional biological wastewater treatment systems. In addition, EPA found that the sludge volume produced by these systems appears to be only slightly less than a conventional extended aeration treatment process which is inconsistent with earlier claims made in promotional materials about the technology.

However, EPA agrees that the environmentally friendly atmosphere created as a part of the AEES "Living Machine" and related technologies offer special opportunities for interface with the public about issues associated with wastewater management. While the Agency's efforts to date have focused on evaluating the treatment performance of the technology, we hope to see our grantee more fully explore and document these opportunities as part of their project documentation. Based in part on this information, to the degree possible, EPA will attempt to address this issue in our Emerging Technology Assessment Report.

EPA has developed numerous materials (fact sheets, primers, videos, technical reports, etc.) as well as worked closely with groups such as the Water Environment Federation, the National Small Flows Clearing House, the National Water Research Institute, the National Academy of Sciences, universities, and others to address a wide variety of waste management issues and outreach materials. Once the Agency has adequately documented the actual performance capabilities of the AEES "Living Machine," we will be able to appropriately represent this alternative approach to wastewater treatment in future editions of these materials.

LIVING MACHINE SUPPLEMENT

*Question*. The Massachusetts Foundation of Excellence in Marine and Polymer Sciences has provided EPA with more updated figures on the cost of building and operating a Living Machine. While I understand that EPA has not yet had the opportunity to analyze this new data, I believe this information could provide valuable insight into the comparative costs of operating a Living Machine versus a conventional system. Considering the developments in the performance of the South Burlington plant and the new information on operating and construction costs, I think that a supplement to the report would be appropriate and helpful for the most accurate understanding of this technology when EPA has had an opportunity to properly review the new data. Will you provide such a supplement to the recipients of the original report when the more recent data has been reviewed?

Answer. The supplemental cost data provided by the Massachusetts Foundation of Excellence in Marine and Polymer Sciences (MFEMPS) was not adequately documented to allow a detailed evaluation. MFEMPS has agreed to provide us with a more detailed basis for the cost savings that they have projected as well as schematics to help facilitate a detailed evaluation. MFEMPS is proposing to have a cost evaluation conducted by one of its Technical Advisory Group members who is well respected within the wastewater treatment industry. The Emerging Technology Assessment Report will include an independent cost evaluation section prepared by personnel with an extensive background in both conventional and natural treatment systems and in conducting cost evaluations of wastewater treatment alternatives. The Agency has suggested to MFEMPS that these two cost evaluation efforts be closely coordinated if not merged. Copies of the Emerging Technology Assessment Report with the cost evaluation section will be provided to Congress.

---

QUESTIONS SUBMITTED BY SENATOR LAUTENBERG

ATSDR FUNDING

*Question*. Ms. Browner, as you know there has been considerable criticism by my colleagues that Superfund sites are not a significant health risk. The work and evaluations by ATSDR have proven those allegations to be false. But despite the proposed increase in funding for Superfund, the non-EPA programs funded out of Superfund, NIEHS, ATSDR, and Justice, receive essentially no increase or decreases. ATSDR has been doing risk assessments and health studies at Superfund and non-Superfund sites including Hoboken and Toms River, New Jersey. It does not appear that ATSDR can keep up with its workload or its ability to fund state programs on critical environmental health issues. Without additional funding, most of the state health departments that depend for site epidemiological work may be cut off. Why does the Administration not fund this program to a level more commensurate to its importance to public health?

Answer. ATSDR is a valuable partner for EPA at priority Superfund sites—particularly at sites moving into the remedy selection/construction phase. The fiscal year 1998 Budget provides $64 million for ATSDR which is a $6 million increase over the fiscal year 1997 request. As stated, ATSDR's assessments can, and are, used to effectively communicate the risks and threats being addressed by Superfund cleanups. However, our investments must focus on our efforts to actually remove the threats we know to exist at the Nation's worst sites. Notwithstanding ATSDR's importance to safeguarding public health, EPA needs the additional funding to meet its construction completion goals which will prevent populations from exposure to hazardous waste.

ATSDR FUNDING: IMPACT ON STATES

*Question.* How many states will have their grants lowered or discontinued under the President's proposal?

Answer. EPA does not provide direction to ATSDR on state supported public health programs. Nevertheless, EPA has provided ample funding to ATSDR in fiscal year 1998 to continue providing steady support for state sponsored public health activities.

NIEHS FUNDING

*Question.* One of the major criticisms of Superfund, is the high cost of technology needed for remedial actions. There has been research on innovative technologies that have significantly brought down costs. For instance, the National Institute of Environmental Health Sciences, NIEHS, through UC-Berkeley developed and tested a stream injection technology for removing solvents and liquid from soils that is 60 times more efficient than pump and treat methods. Despite this work and other work around the country funded by NIEHS, the President's request is a $7 million cut at the same time Superfund's budget increases $700 million. What was the rationale for cutting this program?

Answer. NIEHS conducts valuable basic research on the effects of hazardous waste on human health. However, the President has committed EPA to achieve cleanup results at NPL Superfund sites. In fiscal year 1998, the Superfund program funding must focus on the physical construction of cleanup remedies at hundreds of waste sites around the country. Currently the program has 490 sites with construction underway and more than 880 sites have final remedy decisions signed. Superfund resources are being focused to achieve the maximum number of site cleanups to protect as many people as possible from the health effects of exposure at Superfund sites.

The President's request of $48.5 million is consistent with past requests. It supports both the basic research program ($25.5 million) and the worker safety training ($23.0 million).

SUPERFUND FISCAL YEAR 1998 REQUEST

*Question.* Senator Chafee has gone on record opposing the increase in Superfund spending. Why do you think the increase is appropriate and necessary now?

Answer. Through a progression of events including program maturation and administrative reforms to speed up our process, we now find ourselves in a situation where more projects are ready to begin cleanup than we are able to fund. Our projections indicate that unless the Superfund budget is increased, our existing backlog of projects awaiting cleanup funds will grow.

SUPERFUND SITE CLEANUP

*Question.* How many sites are ready for cleanup now that you couldn't fund if Superfund were flat-leveled at fiscal year 1997 funding level?

Answer. Under the risk-based prioritization of sites, the Agency ranked 65 fund lead sites which are, or will be, ready for funding during fiscal year 1997. Of this, seven have already been funded and 2–3 more sites are expected to be funded in priority order. This will leave approximately 55 sites unfunded at the end of fiscal year 1997. The backlog of sites is expected to continue to grow in future years if budgets are maintained at current funding levels. The fiscal year 1998 budget includes the $650 million needed to address this backlog and to accelerate sites to construction completion by the end of calendar year 2000. If we do not receive these funds, over 100 fund lead sites which would have otherwise started their final phase of cleanup will not be funded in fiscal year 1998 (the backlog would be expected to grow from 55 sites to over 100). Additionally, the Superfund program would not be able to attain the 250 site completions that the two-year "900 Sites" investment

would fund and most of the 55 ranked projects unfunded at the end of fiscal year 1997 would not be completed. Each project start and completion not funded represents at least one community not protected or risks to public health and the environment not addressed.

RESEARCH LAB: EDISON, NEW JERSEY

*Question.* I understand that the Administration considered funding to build a modern laboratory in Edison, New Jersey to perform critical environmental analysis for Region II. As you know, my state has the largest number of Superfund sites as well as other serious air, water, and waste problems. I feel that it is vitally important that the scientists in Region II have modern equipment and facilities with which to assess these problems. Do you agree?

Answer. EPA strongly supports the construction of a modern analytical laboratory at the Edison Facility. This project has been, and continues to be, a top priority for the Agency and ranks high within its master plan.

LEAKING ABOVE GROUND STORAGE TANKS: REGULATION

*Question.* In the conference report which accompanied the VA, HUD, and Independent Agencies Appropriations for fiscal year 1997, the conferees recognized that leaking above ground storage tanks storing petroleum or petroleum products can pose a serious threat not only to communities neighboring these tank farms, but also to the ground water underneath and surrounding these facilities. Furthermore, the conferees expressed their concern that EPA has yet to take substantive action on recommendations made by the General Accounting Office in two reports regarding the safe regulations of these tanks.

Ms. Browner, can you please elaborate on what the Environmental Protection Agency has done to address the gaps identified in these two GAO reports? Specifically, what action has EPA undertaken to enhance the regulation of these tanks in the area of secondary containment, overfill protection, testing, inspection, compatibility, installation, corrosion control, and structural integrity of petroleum tanks in excess of 42,000?

Answer. Part 1. GAO Recommendations. EPA has begun to implement the 1989 GAO recommendations, and has made great progress on such implementation, notably with training activities, but also in all other areas. Specifics follow:

*Actions to Strengthen the Inspection Program.* EPA has completed its survey of approximately 30,000 facilities, has analyzed the results and is currently issuing the results of the survey. The information from the survey will be used for a number of purposes including assistance in targeting high risk facilities for inspections within our existing targeting process, and risk-based rulemaking.

*Developing Instructions to Perform and Document Uniform Inspections.* A workgroup with representatives from EPA Regions and Headquarters oil program and compliance offices developed a comprehensive Inspector Training course with the goal of achieving national consistency in the inspection, documentation, and enforcement of the prevention and response requirements of 40 CFR part 112. The material developed for the Inspector Training course includes national checklists and procedures for documenting inspection results. There are checklists for prevention and response requirements that include flexibility for regional conditions and various types of regulated facilities. The course also includes a national approach to target inspections.

*Better Training for Inspectors.* EPA Order 3500.1 establishes the basic training requirements to ensure that inspectors are properly trained to conduct themselves in a safe and professional manner and build enforcement cases. The order requires three types of inspector training: Occupational Health and Safety Curriculum (OSHA) training levels appropriate to hazards encountered; Basic Inspector Curriculum for instruction in litigation, entry and information gathering tools, evidence, records review for compliance inspections/field investigations; and, Program Specific Curriculum with specific training in the legal, programmatic, and technical subjects for 40 CFR part 112.

In addition to the requirements for the hours and courses described in the above inspector training, all new inspectors must complete a number of facility inspections with a trained inspector prior to conducting inspections alone. The number of inspections is related to the various types of facility types in a Region and the type of inspections being conducted.

The course has been taught in EPA Region VIII and will be given in selected Regions to accommodate attendance by surrounding Regions. Depending on funding, EPA plans to conduct three or four Inspector Training courses a year until all inspectors are trained and then conduct the course on a periodic basis as needed.

Part 2. The Cooperative Program. In addition, EPA is preparing to publish in the Federal Register a proposal to implement an Oil Cooperative Program. Instead of a traditional regulatory approach, EPA will recommend, as a first step, the initiation of a public process to develop a voluntary action or cooperative program, i.e., the Oil Cooperative Program. In this program, aboveground storage tank (AST) facility owners and operators would take action to implement applicable industry standards where no regulations exist to achieve program goals. The program goals for companies participating in the Oil Cooperative Program include one or more of the following: (1) adopting appropriate prevention standards and upgrading equipment as necessary; (2) monitoring and/or implementing leak detection to identify new leaks; (3) addressing known contamination and implementing steps to minimize off-site migration (which may involve appropriate aspects of risk-based corrective action); and/or (4) reporting actions underway to address contamination to appropriate government agencies. The Agency favors a cooperative, rather than a regulatory approach at this time in order to provide greater flexibility in addressing contamination at the vast range of oil storage facility types, sizes, and locations. A cooperative program could focus more directly on facilities that pose the greatest threat to public health and the environment.

Factors that support the development of a cooperative program include: (1) the universe of large AST facilities is easily defined and represented by several large trade associations; (2) the Cooperative Program is consistent with the Agency's goal of developing and promoting innovative approaches to achieve environmental goals; (3) clear, achievable goals are apparent (i.e., to clean up contamination and prevent future release); (4) flexible approaches are available to address the problem, thus allowing participants to implement the Program in a tailored manner appropriate to their circumstances; (5) EPA is committed to providing technical assistance; and (6) there are established industry and State practices and standards that can be used as a basis for constructing a comprehensive program.

In keeping with the Agency's initiatives to develop innovative, common-sense approaches to environmental problems, a cooperative prevention and cleanup program can be an important first step in addressing the environmental problem presented by contamination from AST facilities. Industry representatives have expressed their support for such a program as a more cost-effective, flexible alternative than traditional regulation. EPA believes it will be successful, provided that it has the full commitment of those involved.

LEAKING ABOVE GROUND STORAGE TANKS: VOLUNTARY

*Question*. In EPA's 1996 Report to Congress under section 4113(a) of the Oil Pollution Act of 1990, the "EPA Liner Study," EPA recommended a voluntary rather than a regulatory program to prevent leaks from above ground petroleum storage tanks and their piping. It is my understanding the Agency considers this voluntary program an initial step toward alleviating the public and environmental risks associated with these types of leaks.

Ms. Browner, what measures will EPA use to assess the success or failure of this voluntary program?

Answer. EPA plans to develop these measures in consultation with stakeholders.

*Question*. What are the specific goals of the program?

Answer. The goals for companies participating in the Oil Cooperative Program include one or more of the following: (1) adopting appropriate prevention standards and upgrading equipment as necessary; (2) monitoring and/or implementing leak detection to identify new leaks; (3) addressing known contamination and implementing steps to minimize off-site migration (which may involve appropriate aspects of risk-based corrective action); and/or (4) reporting actions underway to address contamination to appropriate government agencies.

*Question*. What action will EPA take should the voluntary program not achieve its goals?

Answer. We believe that a cooperative approach is the appropriate first step towards addressing potential risks from AST facilities. I would also add, however, that while we are very hopeful that a voluntary approach will succeed, this approach does not preclude development of a regulatory program in the future if warranted. We believe that our risk-based cooperative approach is the most appropriate course of action at this time because it will allow us to gather the information we need to determine if additional measures, such as regulation, are necessary. A cooperative approach also comports with our overall Agency focus on promoting innovative, common-sense approaches to environmental problems through cooperative initiatives with regulated industries.

*Question.* Finally, what strategies does EPA intend to take to prevent leaks from above ground petroleum tank facilities which do not participate in the voluntary program?

Answer. To prevent leaks from facilities that do not participate in the Program, EPA will pursue strategies designed to provide incentives for those facilities to voluntarily take action to prevent leaks. Incentives might include public recognition, technical assistance and cost savings, and reduction of liability.

---

## QUESTIONS SUBMITTED BY SENATOR HARKIN

### OZONE TRANSPORT ASSESSMENT GROUP (OTAG)

*Question.* Since its first meeting in May, 1995, Iowa has been a member of the Ozone Transport Assessment Group (OTAG). This consortium of 37 states, in addition to industries, utilities and environmentalists was created to address the difficult problem of ozone transport at a regional level. I recognize the difficulty many states have in complying with the ozone standards in the 1990 Clean Air Act and understand the frustration they face knowing that many of their air problems are beyond their control due to pollutants being transported from other states. However, I am also concerned that the northwestern OTAG states, including Iowa, may be unfairly required to implement stricter air pollution controls which would have very little, if any, positive effect on nonattainment areas.

I understand that the Alpine Geophysics model shows that the five northwestern OTAG states do not contribute significantly to the ozone transport problem. Is that true?

Answer. EPA intends to base any "significant contribution" decisions for the OTAG states on a weight-of-evidence analysis of all modeling and monitoring information. The Alpine Geophysics model is only one piece of information for consideration.

Based upon all of the technical materials presented to date, including the first two rounds of OTAG modeling, on April 16, 1997, EPA formally notified the OTAG that our preliminary view of the available data do not appear to support the need for additional emission reductions for several states. These are Arkansas, Florida, Iowa, Kansas, Louisiana, Minnesota, Nebraska, North Dakota, Oklahoma, South Dakota, and Texas. Of course, EPA intends to fully evaluate additional OTAG information from subsequent modeling runs as well as respond to final OTAG control recommendations.

### OZONE IOWA SPECIFIC

*Question.* Do you know of any model, which looks at Iowa as a whole, shows the state adding to the ozone transport problem of the eastern states?

Answer. The modeling performed by Alpine Geophysics included Iowa "as a whole" along with four other states. The results indicate contributions to ozone in "downwind" states of up to 2–3 ppb. To our knowledge, there is no modeling that looks at Iowa alone.

### OZONE TRANSPORT FEDERAL REGISTER NOTICE

*Question.* Although the OTAG process will not be completed until this summer, the EPA has announced that later this month it will publish a notice in the Federal Register notifying states of its intention to implement new clean air regulations. Why has EPA decided to do this instead of waiting a few extra months for OTAG to complete its work? After so much energy, time, and federal money was expended on the OTAG process, doesn't it seem appropriate to wait for the group's results before issuing new proposed regulations?

Answer. In an April 16, 1997, letter from Mary Nichols, Assistant Administrator for Air and Radiation, to Mary Gade, Chair of Ozone Transport Assessment Group (OTAG), EPA announced a revised schedule for taking rulemaking action. Based upon the excellent progress that the OTAG has made to date, the EPA has decided not to publish a notice this spring notifying states of planning deficiencies. Because OTAG's schedule for completing their work is consistent with the timeframe for the planned EPA actions, EPA believes it makes sense to condense the two-step proposal process we had planned into a single notice this summer in order to take maximum advantage of OTAG's technical work and its deliberations. The states and other stakeholders have been working very hard to complete their technical analyses of the impacts of ozone transport as well as solutions for mitigation. These analyses are the best that have been done in this country.

OZONE TRANSPORT STATES

*Question.* Requiring "transport" states to comply with new regulations may also be premature. Under Phase I of the Clean Air Act, states with the worst air problems were supposed to establish plans determining how they would address their air problems. These states have not met this obligation. It is not until Phase II that "transport" states, such as Iowa, were supposed to be discussed. What are your thoughts on beginning Phase II before Phase I was completed?

Answer. The EPA presumes that Phase I and II refer to the steps for SIP development described in Agency policy guidance issued on March 7, 1995. This established an alternative 2-phased process which provided ozone nonattainment areas flexibility in the attainment planning efforts for the most polluted areas of the Eastern U.S. The policy called for the establishment of a collaborative process among States, known as Ozone Transport Assessment Group (OTAG), to assess ozone transport and develop regional solutions. Under phase I, states were to submit rules to ensure that their areas were making progress toward attainment. The full attainment plans are due under phase II which is currently reaching completion. Thus EPA is not beginning Phase II before completing Phase I. The EPA intends to wait on the OTAG information and recommendations before taking any action. As previously stated, it is questionable whether "western fringe" states such as Iowa will be involved in any control efforts.

OZONE FREE STATES

*Question.* Shouldn't states like Iowa and the other "ozone-free" states be logically exempted from the new clean air guidelines since they would not significantly help the eastern states but would under the regulation bear a significant regulatory cost?

Answer. Before making decisions on how best to deal with this major air pollution issue, Ozone Transport Assessment Group (OTAG) and the Environmental Protection Agency (EPA) believe it is important to understand and characterize as accurately as possible the extent and impact of transported ozone and its precursors throughout the eastern United States. The OTAG air quality modeling system provides the most complete, scientifically credible tools and data available for the assessment of interstate transport. The OTAG modeling domain, which includes 37 States and the District of Columbia, was based upon technical considerations such as the need to include major emission sources that might affect high ozone formation and transport in the East. Inclusion of Iowa and the other four States who label themselves as "ozone-free" States (North Dakota, South Dakota, Minnesota, and Nebraska) in this OTAG study region does not automatically mean that these States will need to implement additional control measures as part of the regional strategy to mitigate ozone transport. Only those States that significantly contribute to nonattainment, or interfere with maintenance, of the ozone standard downwind will be required to reduce emissions.

In an April 16, 1997 from Mary Nichols, Assistant Administrator for Air and Radiation, to Mary Gade, Chair of OTAG, EPA provided its preliminary assessment, based on OTAG data and other information, of which States will need to make additional reductions in ozone precursors in order to reduce regional ozone transport. In regards to Iowa, North Dakota, South Dakota, Minnesota, Nebraska, and 6 other States, EPA's preliminary view is that the OTAG data do not appear to support the need for additional reductions. However, we believe that it is necessary to evaluate additional information, and more appropriate to wait for final recommendations from OTAG, in order to determine if additional emissions reductions will be needed from these States to address ozone transport.

SMALL BUSINESS ENVIRONMENTAL ASSISTANCE

*Question.* Small business plays a vital role in our economy, and are subject to a multitude of environmental regulations. Small businesses have the smallest capacity to comprehend complex rules and to determine least cost methods to meet those requirements. EPA is beginning to move in the right direction by working to simplify regulations so small businesses can better work with them and to providing assistance through programs such as each state's Clean Air Act Small Business Assistance Programs. However, many additional entities are involved such as Small Business Development Centers and NIST Manufacturing Extension Programs.

The Small Business Pollution Prevention Center at the University of Northern Iowa has developed ways to work cooperatively with a variety of others which try to reduce a pollution generated by small business. The center performs a combination of roles such as producing easy to understand cook book type guides for specific processes and industries targeting those involving a large number of small operators

and which generate significant wastes such as dry cleaners, printers and vehicle maintenance facilities as contemplated in the Small Business Regulatory Enforcement and Fairness Act.

*Question.* I would appreciate your views on the needs for centers such as the one that exists at the Small Business Pollution Prevention Center at the University of Northern Iowa and the role that it plays in translating EPA requirements into a form understandable to small businesses and communicating back to EPA about the difficulty that businesses face in meeting specific EPA requirements?

Answer. The Iowa Center as well as other organizations such as the Northeast Waste Management Officials Association, and the Solid and Hazardous Waste Education Center at the University of Wisconsin play a valuable role in developing state-specific compliance and pollution prevention guides that complement the federal compliance guides that are being developed by the Office of Compliance. EPA sees such state organizations as the appropriate providers of site-specific and/or on-site assistance to small business. The larger state organizations such as Iowa's have also played an important role in developing tools and guides that other organizations within a given state and across state-programs can use. Our goal is to make it easier for state and regional centers to supplement plain-language guides and other compliance assistance tools for federal rules with similar information on state rules.

In addition, we see an important need for our work to feed and encourage cooperation between the broad and growing range of state and local service providers such as the state Clean Air Act Section 507 Small Business Assistance Programs, the Small Business Development Centers, the NIST Manufacturing Extension Partnerships, the regulatory agencies and the state pollution prevention programs.

The EPA's Small Business Ombudsman's Office has found the Iowa Waste Reduction Center to be very effective in carrying out an outreach program to inform and assist small businesses to understand and comply with environmental regulatory requirements. The Center not only offers advice and information but, if necessary, offers "hands on" assistance to bring about voluntary compliance. It also promotes and advocates pollution prevention policies that help alleviate future environmental degradation problems.

Over the past five years, the Ombudsman has awarded annual "Peer Match" grants to the University of Northern Iowa for the Waste Reduction Center to familiarize other State assistance programs with its successful operating procedures. This involved hands-on training at the Center in Iowa, as well as, Center personnel traveling to "Peer Match" States to provide on-site assistance. Our evaluation reports indicate that the "Peer Match" assistance was most beneficial in helping other States develop effective programs.

In addition, the Agency's Small Business Ombudsman awarded a grant to the Waste Reduction Center to develop Environmental Auditing Assessment Guidance material for small businesses to use in reviewing their environmental compliance requirements. We have been most pleased with the professional treatment given to this undertaking. Good, sound, self-initiated environmental auditing programs will lead to additional voluntary compliance, as well as a greater sensitivity to environmental problems and issues.

SMALL BUSINESS POLLUTION PREVENTION CENTER

*Question.* One example of a feedback mechanism relates to the Center informing EPA of the difficulty that service stations had in handling used oil filters. Happily, EPA changed its rules in this area. These seemingly narrow issues are exactly what can both create consternation in small business people and add to their cost. Shouldn't EPA be doing more to create centers like the one at the University, to strengthen those that already exist and to actively seek feedback to find easier ways to meet environmental objectives at lower cost?

Answer. There is an important distinction between the national Compliance Assistance Centers program that EPA's Office of Compliance is supporting and the state-programs such as the Iowa Waste Reduction Center. The Office of Compliance has supported the establishment of four national compliance assistance centers for the metal finishing, auto service and repair, printing and agriculture sectors. These centers are communications-based rather than physical locations and serve the entire nation rather than a particular state or region. These national Centers provide readily accessible information on federal regulatory requirements to small businesses via the Internet and toll-free numbers. They complement and support programs such as the Iowa Waste Reduction Center in two important ways:

—They complement the on-site and state-specific work that Iowa conducts by providing a place for small businesses to get "the basics" on federal regulatory re-

quirement as well as by alerting small business to the additional services of state and local programs; and

—They support state programs such as Iowa's by providing easy access to sector-specific compliance assistance tools they can use in their own work with small businesses. EPA is expanding its support of national Centers, based on industry demand, to establish Centers for the printed wiring board manufacturing, chemical manufacturing, local government and transportation sectors.

In addition, EPA has several grant programs that support programs like the pollution prevention program at the University of Iowa. These include the Pollution Prevention Incentives to States Grants, which has been in existence since 1990 as well as some newer efforts.

The Office of Compliance now uses a portion of the TSCA Enforcement Grants funding to support state operation of comprehensive compliance monitoring and assistance program on a facility-wide and industry sector basis. Most recently, EPA is in the process of distributing funding pursuant to Section 215 of SBREFA. Under this project $1 million will go to the states to develop compliance guides and tools that integrate state and federal rules to enhance a small businesses understanding of their total regulatory requirements.

SMALL BUSINESS COMPLIANCE ASSISTANCE CENTER FUNDING

*Question.* I am pleased that EPA recently designated a painting and coating compliance assistance center at the University of Iowa to work on that process which is used by many industries. It was unique in that it targeted a process rather than a specific industry. However, don't you believe that, given the size of the area involved, additional funding would be appropriate, comparable to the industry specific compliance assistance centers?

Answer. We funded a project at the University that would develop various tools for technical assistance providers to use in their client-relationships with painting facilities. The Office of Compliance (OC) has an existing Metal Finishing Resource Center that has been expanded to serve the organic coatings side of that industry. This Center will work very closely with the University of Iowa and plans to assist in the development and distribution of Iowa's products.

While the Compliance Assistance Centers that OC supports do distribute tools for technical assistance providers this is just one of their functions. The OC program has supported the development of communications-based centers (e.g. via the Internet or toll-free numbers) that do several key things:

—Provide easy access to federal regulations, interpretations and guidance.

—Distribute compliance tools that can be used directly by small businesses or by those assistance providers that serve small business.

—Develop process-specific training modules to improve assistance providers understanding of the industries they serve.

—Enable information exchange among businesses through "chat rooms" and "on-line conferences."

—House databases of technologies and pollution prevention ideas.

—Provide easy access to vendors, state and local assistance providers and other resources for additional compliance assistance.

POLLUTION PREVENTION AND FEDERAL GOVERNMENT

*Question.* Pollution Prevention is vital to ensuring the health of our nation's citizens, in protecting the environment and in saving dollars, especially by avoiding the cost of waste disposal and future environmental cleanups. As you know, pollution prevention involves reducing, avoiding, or eliminating the use of toxins and the generation of hazardous waste and pollution at the point of production itself. The best way to avoid harming the environment is to prevent pollution before it is created.

As President Clinton pointed out, the federal government should set the example for the rest of the country in applying pollution prevention strategies in order to protect our health and the environment

Pollution prevention should be a key element of good government. Federal Agencies should find ways of using more environmentally friendly products and methods in order to save tax payer dollars. Often, with a relatively small investment now, the federal government can avoid having to pay far higher costs of cleaning up the environment and meeting environmental compliance rules in the future.

*Question.* Which federal agencies and facilities have complied with the deadlines of Executive Order 12856, which requires each federal agency and facility to establish a pollution prevention plan?

Answer. Executive Order 12856 directs that all Federal agencies with facilities meeting any regulatory threshold for reporting under EPCRA ("covered facilities")

to develop a strategy for implementation of the Executive Order. Seventeen Federal agencies meet the threshold provided by Executive Order 12856 and have prepared formal pollution prevention strategies. In a document entitled "Meeting the Challenge: A Summary of Federal Agency Pollution Prevention Strategies," EPA has compiled agency strategies and prepared an overview of each agency's commitment to the various provisions of the Executive Order.

The Executive Order also directs that covered facilities prepare pollution prevention plans for implementing agency strategies and provisions of the Order at the facility level; these plans were to be completed by the end of December 1995. Federal facilities covered by the Executive Order are not required to submit their plans to EPA but they must be available upon request by the public or EPA. Over 2,400 Federal facilities meet the threshold for preparation of the plans. The Department of Defense (DOD) has directed all DOD facilities to prepare those plans, whether or not they are "covered facilities". EPA has provided extensive training to assist Federal facilities in preparing their pollution prevention plans and estimates that a majority of facilities required to prepare the plans have done so.

While there is no provision established by the Order for determining compliance, EPA regional staff use compliance inspections and other facility visits to request and informally review copies of the facility plans.

POLLUTION PREVENTION STRATEGIES

*Question*. Has EPA found that individual agencies and facilities are adequately funding the pollution prevention strategies established by these plans?

Answer. EPA does not track specific funding allocations related to implementation of Executive Order 12856.

As directed by Executive Order 12088, however, EPA reviews agency environmental budget requests and has recently amended its FEDPLAN guidance on those requests to include projects required to comply with the specified deadline requirements of Executive Order 12856 in the "Class 1" category of funding requests. This revision will be implemented for fiscal year 1998. These projects are compliance/enforcement related and the Class 1 designation signifies a vital project. The amended guidance will allow facility funding requests for projects outlined in agency pollution prevention strategies and facility pollution prevention plans to be designated as Class 1 and thus receive more favorable consideration during the budget allocation process. In addition, EPA's FEDPLAN guidance also allows Class 1 designations for pollution prevention projects that are necessary to bring a facility into compliance or prevent non-compliance in the following fiscal year.

POLLUTION PREVENTION CONGRESSIONAL SUPPORT

*Question*. I understand that, at times, implementing pollution prevention plans requires a short term cost increase to an agency or facility in order to realize longer-term savings in the costs of complying with environmental laws and regulations. It is my hope that federal agency and facility budget staff will see the fiscal wisdom of paying for good pollution prevention practices. In EPA's view, what budgeting rules or policies should be established by the Congress or the Administration in order to further encourage implementing federal pollution prevention plans?

Answer. While EPA does not have any specific recommendations, our experience indicates that those agencies that have been most effective in implementing pollution prevention plans and strategies are those where agency budget policies include life cycle considerations and recognize the economic benefit of pollution prevention as well as the ability of pollution prevention projects to meet or exceed the requirements set forth in many environmental regulations.

In addition, within the Executive Branch process, EPA has provided comment to the General Services Administration on proposed changes to the Federal Acquisition Regulation to meet the requirements of Executive Order 12856. Section 3–303(c) of the Executive Order recognizes that changes would be necessary to ensure that acquisition and procurement goals established in the Order were carried out. Under the Executive Order, these changes are expected to be completed in fiscal year 1997.

POLLUTION PREVENTION IMPROVED COMPLIANCE

*Question*. I understand that during this Administration, the compliance levels for the federal procurement and acquisition rules that encourage pollution prevention strategies have improved significantly. However, there is still room for further improvement. Is EPA devoting adequate resources toward achieving improved compliance? What is the level of support? What resources are needed for the coming fiscal year?

Answer. In response to Executive Order 12873 on Federal Acquisition, Recycling, and Waste Prevention, EPA proposed guidance for federal agencies which establishes a set of principles to help federal agencies incorporate environmental preferability into their procurement practices. The Environmentally Preferable Products Program (EPP) is budgeted in fiscal year 1998 at $677.6 thousand. EPA also has a number of pilot projects underway to apply the guidance's principles to specific product categories. The pilot projects EPA has initiated focus on cleaning products with the General Services Administration and building construction and renovation with the Department of Defense. The Cleaning Products Pilot Project is a cooperative interagency effort which has established a framework for identifying and comparing the relevant environmental attributes of cleaning products. The DOD-EPA construction and renovation pilot has focused initially on using the procurement process to encourage contractors to use environmentally preferable products in parking lot construction and will extend to integrating environmental considerations into the renovation of the Pentagon. Other agencies are beginning pilots which will demonstrate how third party certification programs can assist federal agencies in assessing environmental preferability.

## SUBCOMMITTEE RECESS

Senator BOND. And with that, the subcommittee stands in recess until April 22, when we will take testimony from the National Science Foundation and OSTP.

The hearing is recessed.

[Whereupon, at 12:30 p.m., Tuesday, April 8, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

# DEPARTMENTS OF VETERANS AFFAIRS AND HOUSING AND URBAN DEVELOPMENT AND INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1998

---

**TUESDAY, APRIL 22, 1997**

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, DC.*

The subcommittee met at 9:33 a.m., in room SD–192, Dirksen Senate Office Building, Hon. Christopher S. Bond (chairman) presiding.

Present: Senators Bond, Burns, and Mikulski.

## EXECUTIVE OFFICE OF THE PRESIDENT

### OFFICE OF SCIENCE AND TECHNOLOGY POLICY

**STATEMENT OF JOHN GIBBONS, DIRECTOR**

OPENING STATEMENT OF CHRISTOPHER S. BOND

Senator BOND. Good morning. The hearing comes to order. The subcommittee meets today to review the budget request of the Office of Science and Technology Policy and the National Science Foundation.

We welcome Dr. John Gibbons, the President's science advisor, and Dr. Neal Lane, the Director of the National Science Foundation. OSTP's budget request totals $4.932 million, the same as fiscal year 1997 enacted level. The NSF's budget request for fiscal year 1998 is $3.367 billion, a $97 million or 3-percent increase over enacted fiscal year 1997 level.

I am very pleased to be able to convene this hearing today on the Office of Science and Technology Policy and the National Science Foundation. I do not guess we need to remind you of the strong support this subcommittee has provided for the Nation's scientific endeavors, certainly under Senator Mikulski's leadership as well as in the last couple of years.

Some of you may have heard that my fellow Missourian Harry Truman once commented that he needed a one-handed economist so his advisors would not be able to say, but on the other hand.

Senator BURNS. Economists are like that. [Laughter.]

Senator BOND. You will have your time, Senator Burns, but I now have one on you.

Support for science is where we do not need a one-handed economist. Economists generally agree that investment in research and

development provides a positive return to the economy, although they may disagree on exactly how much return, or how to measure the rate of return, and we agree with the general principles of economists on this one. Research and development are good investments, and we will have some questions to find out how you are prioritizing those investments.

We know that you Dr. Gibbons and Dr. Lane agree with it. We acknowledge and applaud the efforts you have made to communicate the wonder and awe that scientific endeavors can inspire in the American public, particularly in Americas' young people.

As one who normally drives a car pool with a bunch of high school sophomores once a week, I am fascinated that they are paying attention to the scientific accomplishments that are reported in the news media. We have seen great coverage, this morning's television focusing on Hale-Bopp, the Washington Post Magazine covering everything from the smallest bacteria to the far reaches of the universe, and I think that is exciting and very healthy.

As chair of the subcommittee I have a particular interest in exploring the Federal investment in biotechnology, particularly as it applies to agricultural sectors, plant genetics.

I think it is imperative to maintain the long-term sustainability and competitiveness of U.S. agriculture, and I agree with Dr. Gibbons that plant genome research is vital to this effort. I know I can count on both OSTP and the National Science Foundation to help organize, direct, coordinate, and support the efforts that are beginning in this important area.

And on the other hand, this is another very difficult year for this subcommittee. We have human-scale problems, ranging from medical care for veterans to housing for low-income Americans to relief for victims of disasters, which also unfortunately are occupying the headlines in the top of the news.

We are not far enough along in the budget process to have an allocation for this subcommittee to know how much money we will be dealing with, so it is premature to be able to discuss absolute levels of funding that may be available for these critical science accounts.

Our purpose today is to discuss with both of you the priorities for this Nation's scientific enterprise and how those priorities are reflected in your agency's activities. We are particularly interested in the implementation of the results act, which requires agencies to think strategically about their goals and to measure their performance against goals they have set.

Although we appreciate the difficulty of setting goals in basic scientific research, where the goal is to explore the unknown, we have to ask that you hold yourselves and that you be accountable and responsible to us for how we spend those Federal dollars.

It is a pleasure now to call on my distinguished ranking member, Senator Mikulski, for her opening statement. Senator Mikulski.

STATEMENT OF BARBARA MIKULSKI

Senator MIKULSKI. Thank you very much, Mr. Chairman, and I would like to welcome our two witnesses today, Dr. Lane of the National Science Foundation, and Dr. Gibbons, the Director of the Office of Science Technology Policy for the President.

Mr. Chairman, I have long been an advocate for Federal investments in research and in development, and several years ago a report was issued by various councils on competitiveness that outlined 13 critical technologies that would be needed in the 21st century, the type of work that you have just outlined that will be so important for not only agriculture but its ultimate impact on the value-added agriculture for people.

The report noted how we should link our science and our engineering to the development of technology, and give us and develop manufacturing in this country that would allow us to have products to export overseas.

Everyone knows that for some time I have been concerned about how the fact the United States of America wins the Nobel Prize, and yet other nations win markets. Therefore, I encouraged the National Science Foundation to examine how it organized itself and encouraged it to increase funding for basic research, always focusing on basic research, but in strategic areas, what were the needs of this country to be able to develop and move ahead.

The aim was not to reduce basic research, but to develop a navigational chart of strategic areas in which funds could be focused. Therefore, in the course of our testimony, I will want to know exactly where we have been moving in that particular area.

I want to hear what progress has been made in developing national goals to stimulate not only new ideas, but new opportunities for economic growth through research and development. I want to hear what the agencies are doing to encourage public-private partnerships, and how public investment is leveraging private sector research and also, ultimately, leading to private sector jobs.

Mr. Chairman, I am not calling for an industrial policy, but I am calling for a national set of the focus. I understand that the National Science Foundation no longer highlights these strategic interests, and I will be interested in knowing how they are moving ahead.

I also understand that Dr. Gibbons in his testimony has referred to the gap between university research and private sector product development as the valley of death. We want to make sure that there is no valley of death between the creating of new ideas and new products, but that we really work to have a broadbased set of policies that create a canyon of opportunity.

I know I am using agriculture and western metaphors, but I will come back to my own Chesapeake Bay one. We need a navigational chart to make sure that we go from a clipper ship economy to a microchip economy, and I look forward to working with you and our colleagues, who I esteem very much in this endeavor.

Thank you.

Senator BOND. An inspiring metaphor, Senator Mikulski. [Laughter.]

Now we will turn to Senator Burns for equally lofty comments.

STATEMENT OF CONRAD BURNS

Senator BURNS. Mine will not be lofty, Mr Chairman. In fact, the working relationship that we have had both in the authorizing committee and in the Appropriations Committee with Jack Gibbons and Neal Lane has been one that I think has been a very good one.

We will probably argue about priorities, but we never argue about the need of science and technology and the role that the Government plays and the dollars that the taxpayers invest in science and technology.

I am struck by the comment of the ranking member, Ms. Mikulski, that we win the Nobel Prizes and other countries get the markets. Maybe we better get some scientists in trading. We send lousy traders to these negotiations. That is what we have. We better get on the street and know how to sell a product and know when to make a deal and when not to make a deal, and that is where we fall down quite a lot.

I just want to congratulate Jack and Dr. Lane in our working relationship. We want to do that. I would just like for my statement to be made part of the record, and I think we should hear from them.

Thank you very much.

STATEMENT OF JOHN GIBBONS

Senator BOND. Now I would like to call forth Dr. John Gibbons, Director of the Office of Science and Technology Policy and Dr. Neal Lane, Director of the National Science Foundation. We would like to ask both of you gentlemen to give your statements, and the questions will be directed in many instances to one or both of you so we can hear your ideas together. So with that, Dr. Gibbons.

Dr. GIBBONS. Thank you, Senator. I am delighted to appear before you, Senator. I must say at the outset how much I have appreciated the strong support, the bipartisan support of this committee over the years with respect to science and technology in our Nation's future. There are a lot of discomforting things in this job, but your support is a very comforting thing to me.

As I was preparing for today I was recalling some of the events that were transpiring a little over 1 year ago in which there were serious talks of draconian cuts in research. There was acrimonious debate about the role of Government in our Nation's life, especially the public-private cooperation and partnerships in science and technology, but I am really optimistic that much of this is behind us, that we are slowly but surely moving toward reestablishing the more traditional broad bipartisan support for science and technology.

But having said that, I think there are as many struggles ahead of us as there are opportunities. We talk about opportunities in a report I sent to the Congress about 1 week ago. It is a biennial report on the status of science and technology. It is a very enthusiastic report because it relates the enormous progress we are making, but also the number of extraordinary opportunities ahead of us.

But our central concern still is our fiscal challenge. The heaviest pressure of getting our budget balanced is on the discretionary part of our national budget, which is only one-sixth of the total. In that sense, nothing should be immune from very close scrutiny. In my view, science and technology stands out as one of those proven public investments that is so key to our national strength, and so essential to enabling our future, that it merits very special nurturing. At the same time, it must not escape the same kind of scrutiny that all of these programs must receive.

As you said, Mr. Chairman, we have an extraordinarily well-proven high rate of return of public investments in research. Probably one-half of our economy, our economic growth over the last one-half century, is relatable to our research, and it has shown up in our national security, our economy and jobs, our health, and our environment. All of these directly benefit from those investments.

We are now in our fifth year of moving toward that budget balance. At the same time, it is the fifth year in which the President has proposed a modest increase in support of our research budget. We have budgeted for 1998 an increase in R&D of about $1.6 billion over fiscal year 1997, to a total of about $75 billion as scored by OMB. This represents about a 3-percent increase in our civilian R&D activities and a significant increase in our fundamental science support within the Department of Defense.

What the budget does is, it boosts basic research, so key to our future. It emphasizes peer-reviewed university-based research because you get the double hit of training new scientists along with the research.

It gives new support to technologies to benefit the revolution in the new information age that we are immersing ourselves in. It gives greater support for bringing that same kind of information technology to our classrooms, which can so greatly profit by having this kind of infusion and newness.

It puts greater investments in science and technology to ensure our continued economic leadership and job creation. It gives incentives to lever private sector investments in research by providing ways to tease greater private investments in this direction.

It increases environmental research. I was thinking about that this morning. With the great floods in the upper Midwest, we are now suffering about $1 billion a week from natural disasters in the United States. The word natural is getting a little unusual, because I think people are getting to be part of that so-called natural system.

It increases our support for health, food, and safety research. It sustains support for our civil space program. It promotes science and technology for national security, especially the long-term support base.

Balanced against our imperative to balance the budget, I am satisfied that we are on target.

Of course, there are calls for larger increases in the budget, and I would be delighted. It makes me very happy to hear of these calls, but to turn a phrase, happiness cannot buy money. Would I like to see an increase in Federal funding for research? You bet I would. So would the President, and so would all three of you.

Would strengthening Federal support for science and technology support our economic and other national security issues? Of course, but the constraints on Federal research funding are driven by that need to balance the budget, and we must keep that in mind as we go ahead.

I would be delighted to argue for increasing research to track our national economic growth. Until we find that we can secure ourselves fiscally, I think that would be premature judgment.

Finally, in the face of these enduring constraints on our funding, we have to find ways to stretch our effectiveness. I would say there

are three ways before I close. First, increase productivity of our Federal agency-sponsored research. We can talk about this during the question period, Mr. Chairman. I think OSTP's work has been to more closely integrate the work of the agencies across these agency boundaries, where you can get much greater from the whole than the sum of the parts separately, so we are working within the Federal administration family.

The second thing is that we want to strengthen the national innovation system, not just the Federal system. The Federal system is only about 39 percent of the total national R&D. That means encouraging greater private sector investment with tax policies, with partnering, strengthening university-Government relationships, which are stretched and need work. I will be happy to recount some of that for you, increasing our State-Federal collaboration, and we have a new activity going on now with the National Governors' Conference. We are seeking greater international cooperation where it makes sense for us, especially in very expensive research and in basic research where the information is so broadly shared.

The third area is introducing more effective accountability, and you mentioned this earlier this morning, Mr. Chairman. We are working hard on the Government Performance and Results Act, especially as it relates to research and, of course, this can get very difficult, as you pointed out, when you are working in basic research. Sometimes you have to wait 20 years to find out how important it was or was not. Nonetheless, we are working hard in that area, because more effective accountability on the outcomes measures are really important for us.

PREPARED STATEMENT

And finally, Mr. Chairman, as you pointed out, we are asking for the same people and dollars in this coming year, which we hope the committee will look favorably upon.

Thank you.

[The statement follows:]

PREPARED STATEMENT OF JOHN H. GIBBONS

Mr. Chairman, Members of the Committee, I am pleased to appear before you today to discuss the Office of Science and Technology Policy's (OSTP) budget request for fiscal year 1998.

As we approach the turn of the century, it seems appropriate to take stock of the Nation's science and technology (S&T) enterprise, and to look to the opportunities that lie ahead as well as the challenges that we face. The Information Age is bringing changes to our society that are only beginning to unfold. Already, new communications technologies are transforming the way we work, where we work, and what we need to know to be successful in tomorrow's competitive environment. Five years ago "Internet" was still a word known mostly to those in S&T. Today, it is the backbone of a new industry and a window to a tremendous world of information for all segments of our society, from business executives to school children.

The rapid economic growth of other nations means a future with greatly expanded markets for U.S. goods and services. Our ability to move our ideas, our goods, and ourselves swiftly to any place on the planet, with the help of new technologies, enhances our ability to share in the growth of global wealth. The increasing availability of these same capabilities throughout the world also means greater competition; it means increasing pressures on our shared environment, health, and natural resources; and it means more diverse dangers to our security from threats such as terrorism and the spread of nuclear and other materials of mass destruction.

The President's key goals for our country include competing aggressively in the global market place, preserving our environment and managing our Nation's resources in a sustainable manner, safeguarding our national security from emerging threats, and maintaining the technological innovation that has contributed to our economic prosperity and quality of life. Achieving these goals requires a sustained commitment to our S&T investments. Therefore, this year, as in the previous four, the President has called for increasing our national commitment to support S&T.

Just as we struggle with the increasingly difficult choices that a balanced budget requires, we also must focus on the importance of sustaining our investment in the future. Funding for S&T, like funding for education, is a high-leverage investment in our continued peace and prosperity. Support for such investments has traditionally been a matter of bipartisan agreement. It is imperative that we build common ground in support of a shared vision—a commitment to keep America the world's leader in S&T.

RECENT ADVANCES IN SCIENCE AND TECHNOLOGY

Over the past year there have been numerous scientific and technological advances, reminding us of how much there is yet to know, and of the potential of S&T to further enrich and improve our lives. I will mention just a few such recent advances.

—In December 1996, the U.S. Department of Energy, in cooperation with Intel Corporation, announced the completion of the world's first 1-trillion-calculations-per-second computer—breaking the teraflop goal. This computer was developed as part of the Department's Accelerated Strategic Computing Initiative, which is pioneering technology to ensure the safety and reliability of the U.S. nuclear stockpile. This accomplishment is the culmination of years of effort to reinvent computing, organized within the Federal government as a multiagency consortium called the High Performance Computing and Communications (HPCC) Initiative. Instead of focusing on a single computer processor, which would have been extremely difficult and expensive, the U.S. program resulted in an entirely new computer technology called parallel computing. Parallel computing allows the biggest computers in the world to be assembled from mass-produced microprocessors, which were originally developed for use in desktop and home PC's. This new computing power is valuable in a variety of applications, including the simulation of disease progression, the projection of severe weather systems, the mapping of the human genome, the improvement of highway safety, and the development of environmental remediation methods to reclaim polluted lands.

—Scientists are unraveling the complex interactions that exist between HIV and the human immune system. We now have a much better understanding of how HIV gains entry into cells. NIH-supported scientists have discovered two new cell-surface proteins that act as "cofactors," along with the CD4 receptor that assists HIV, in binding and infecting immune cells. This information will be extremely useful in developing new approaches to control AIDS. In addition, the use of powerful triple drug therapies is having a remarkable impact on the number of deaths caused by HIV. Such deaths are down 13 percent from last year, although the number of infected persons in the population remains high.

—Two NIH-funded groups, using different but related genetic techniques, reported an important advance in neuroscience: employing sophisticated monitoring equipment, researchers were able to detect activity in individual brain cells as the mice investigated their surroundings and created a mental map of their environment. This work provides a window into how human memory functions.

—A group at the Massachusetts Institute of Technology has succeeded in using a Bose-Einstein condensate (BEC) to make the world's first "atom laser," which fires a narrow beam of coherent "matter waves" with about a million atoms per pulse. Coherent beams of atoms could eventually allow much finer measurements and manipulations, such as moving atoms around one by one, or "writing" atoms into semiconductors.

—In a stunning scientific advance that contributes to our fundamental understanding of the origins of life, in August of 1996 a team of researchers announced that they had decoded the first complete genetic blueprint of a microorganism from the third major branch of life on earth, a microbe named Methanococcus janaschii. The finding will allow scientists to understand more about the operation and function of the cell, while bringing them closer to understanding the nature of ancestral cells from which life stemmed early in the planet's history. In the years ahead, this gene sequencing achievement holds

dramatic prospects for commercial applications in biotechnology, for the development of renewable energy sources, and for cleaning the environment.

THE NATIONAL RESEARCH INVESTMENT PORTFOLIO

Overall, the Federal government invests approximately 2.5 percent of the Federal budget annually (roughly $75 billion) to generate new knowledge, new technologies, and new scientists and engineers. The return on investments in S&T as a whole for our Nation has been impressive: half of our economic productivity growth in the last fifty years is attributable to technological innovation and to the science that supported this innovation.

The Administration's fiscal year 1998 budget supports the cutting-edge research of the Federal government's mission agencies by augmenting stable funding levels with targeted increases that include:

—A 2.6 percent increase in the National Institutes of Health budget, to fund high-priority research areas such as HIV/AIDS-related illnesses, breast cancer, minority health initiatives, disease prevention, and spinal cord research.

—A 3 percent increase in the funding of science, engineering, and education R&D at the National Science Foundation.

—A five-year, 1 billion dollar increase in NASA's space science budget, funding research into the origins of the universe and the possibility of life beyond Earth.

—An almost 8 percent increase in the basic research budget of the Defense Department.

—A $1.4 billion appropriation (exclusive of funding for facilities construction) for the Department of Energy's Stockpile Stewardship Program, which supports the research that will allow us to assure the reliability and safety of our nuclear stockpile without resorting to nuclear testing.

—An almost 5 percent increase in basic science research programs at the Department of Energy.

—A $289 million increase in funding for university-based research to strengthen the University-Government partnership and a $497 million increase in peer reviewed R&D programs.

SHAPING THE TWENTY-FIRST CENTURY

A bipartisan consensus has emerged around the view that we must create, not simply a Federal research program, but a truly national S&T enterprise—one in which Federal investments stimulate and leverage the S&T efforts of state and local governments, of private industry, of universities and of our international collaborations. In a tight budget environment, these partnerships are essential, and will be a cornerstone of our S&T enterprise in the coming years.

The long-standing Federal partnership with universities has made our Nation the world's leading generator of new knowledge and of fundamental insights that lead to new industries, breakthrough medical therapies, and a more sophisticated defense. We are also placing an increased emphasis on partnerships with industry, in which the Federal government shares the costs and the risks of advances that promise a large benefit to society. An example is the Partnership for a New Generation of Vehicles initiative, in which seven federal agencies and twenty national laboratories have partnered with the Big Three automobile manufacturers in R&D projects aimed at improving auto safety, emissions, and fuel efficiency.

Increasingly, we are also seeing research at the frontier of scientific knowledge become more sophisticated and more costly. Federal investments in international collaborations have provided an effective way in which we not only can share the burden of these expensive programs, but we can benefit from the expertise and know-how of the others. The International Space Station, the Large Hadron Project at CERN, and the Gemini Telescopes in Chile and Hawaii are excellent examples of how we can leverage our domestic investments and priorities by collaborating with our international partners.

Other Federal partnerships include grass roots projects that bring people and technology together. One such venture, the Technology Innovation Challenge Grant Program, has already lead to the creation of dozens of partnerships linking school systems with businesses, universities, parks, and museums to develop creative uses for information technologies. Partnerships such as these extend the benefits of our Nation's investment in S&T.

THE OSTP MISSION

In support of our Nation's S&T priorities, OSTP has two primary responsibilities: advising the President on S&T; and providing leadership and coordination for our government's role in the national S&T enterprise.

In the 1950's, in response to Soviet advances highlighted by the launch of Sputnik, President Eisenhower saw the need for expert S&T counsel, and he invited MIT President James Killian to serve as the head of the first President's Science Advisory Committee, an OSTP predecessor. Since then our Nation's Presidents have drawn on the expertise of our office for S&T policy advice, and I see this as a contribution that will continue to grow in value as the challenges we face become increasingly complex.

Within our agency, a small staff of professionals analyzes developments at the frontiers of scientific knowledge, and aids the President in shaping policy. OSTP also provides scientific and technical information and recommendations to the Vice President, the White House Offices, the Executive Branch Agencies, and to Congress.

A second responsibility of OSTP is to provide leadership and coordination across the Administration. OSTP plays this role for a range of Administration S&T priorities, including national security and global stability, environment, science, and technology. The National Science and Technology Council (NSTC) has been an invaluable partner with OSTP in developing interagency evaluations and forging consensus on many crucial S&T issues.

NATIONAL SCIENCE AND TECHNOLOGY COUNCIL

To meet the Administration's priority S&T goals we must combine the efforts and the expertise of multiple agencies. OSTP personnel support the work of the NSTC, a Cabinet-level Council that sponsors interagency initiatives to advance key S&T objectives. Our distributed system of research funding also places a premium on coordination between complementary agency programs. The NSTC, now in its fourth year, is improving such coordination.

NSTC membership includes Cabinet Secretaries, heads of S&T agencies, and key White House officials with significant S&T responsibilities. In the process of generating specific budgetary and policy recommendations, the NSTC routinely reaches beyond the federal government to seek input from a wide spectrum of stakeholders in the public and private sectors.

An important objective of the NSTC is to guide individual agency budget priorities for R&D and to orient the S&T spending of each Federal mission agency toward achieving national goals. To meet this objective, the NSTC has established nine goal-oriented committees, each of which is chaired jointly by a senior agency official and an OSTP Associate Director. These standing committees, along with ad hoc working groups within the NSTC, provide an effective forum to resolve cross-cutting issues such as interagency review of the future role of the U.S. national laboratories, or the Federal response to the threat of emerging infectious diseases.

Current interagency S&T initiatives include:

—The National Bioethics Advisory Commission, a multiagency-supported commission composed of experts and community representatives, established by the President to ensure ethical conduct in human biological and behavioral research.

—A three-year, $300 million Next Generation Internet Initiative to create the foundation for the networks of the 21st century, by connecting more than 100 of our universities and national labs at speeds that are 100–1,000 times faster than today's Internet—with the capacity for secure, reliable transmission of voice, video, and virtual reality data.

—A multiagency task force to conduct a comprehensive review of the University-Government partnership. This review will examine which components of the university system may be under stress, and will determine what the U.S. Government role should be in addressing these issues.

—An Intelligent Transportation Initiative to support traffic control centers that can manage the operation of major roads by providing real-time information that will drastically cut accident rates, produce an estimated 15 percent savings in travel time, and result in significant productivity gains for business and industry.

—An Emerging Infectious Diseases Initiative to develop more effective systems of surveillance, prevention, treatment, and response to these growing domestic and international health threats.

—An interagency antiterrorism body, the Technical Support Working Group, to coordinate the development of new technologies to counter the modern terrorist threat.

—An Environmental Modeling and Research Initiative to allow, for the first time, a comprehensive evaluation of our Nation's environmental resources and its eco-

logical systems, thus producing a sound scientific base to support natural resource assessment and decision-making.

—A variety of educational technology projects and classroom telecommunications links, funded by major Federal agencies, to reflect the President's unwavering support for improving the educational and training opportunities of the workforce of tomorrow.

—A multiagency Children's Initiative to assess the current scope of research on children and adolescents, to identify significant gaps in the research agenda, and to develop recommendations for needed efforts and linkage in the research and policy development.

THE PRESIDENT'S COMMITTEE OF ADVISORS ON SCIENCE AND TECHNOLOGY

As Assistant to the President for Science and Technology, I co-chair the President's Committee of Advisors on Science and Technology (PCAST). John Young, former President and CEO of Hewlett-Packard Co., serves as the other co-chair. PCAST is a distinguished assembly of scientists, academics, and industrial leaders. It serves as the highest-level private sector S&T advisory group for both the President and the NSTC. This past year, issues examined by PCAST included the health of our research universities, the government's investment role in technology, prevention of deadly conflict, University-Government partnerships, sustainable development, and the Federal research and development role in learning technologies.

OSTP BUDGET REQUEST

I ask today for your continued support of OST's role in coordinating S&T policy for the Executive Branch and for our Nation at large. OSTP's budget request of $4,932,000 for fiscal year 1998 will maintain the ability of our agency to serve both the public and this President to the fullest extent. This is the same figure as our request for fiscal year 1997.

Since personnel costs constitute the largest portion of OSTP's budget, wherever possible the fiscal year 1998 request reflects a reduction of administrative expense in keeping with the Administration's goal of creating a leaner, more efficient government. The request for fiscal year 1998 reflects our commitment to operate cost-effectively while retaining the most vital element of our agency—our high-caliber personnel.

1996 ACCOMPLISHMENTS

Before concluding, it is appropriate that I take some time to provide a sample of OSTP's accomplishments over the past year. (We have submitted for the record a document fully summarizing our fiscal year 1996 accomplishments.) OSTP, working with the NSTC, has been instrumental in shaping our Nation's S&T policy; not only as it relates to Federal S&T activities, but also to partnerships between the Federal government and states, universities, industry, and our international colleagues.

*Environment.*—OSTP continued its focus on improving the efficiency and coordination of on-going agency and interagency environmental R&D activities. OSTP fostered an interagency effort, NSTC's Committee on Environment and Natural Resources (CENR), to integrate the Nation's environmental monitoring and related research. CENR will provide an integrated scientific information base to support natural resource assessment and decision-making. Many of today's monitoring programs are designed with the goal of providing information on single-agency missions, and tend to focus on a single source or issue. By integrating these monitoring and research activities, the Nation can begin to assess the status of resources and their multiple uses in the context of entire ecosystems.

OSTP staff helped develop a strategy for national earthquake loss reduction to focus scarce research and development dollars on the most effective means of saving lives and property and of limiting the social disruptions from earthquakes. This Administration is strongly committed to reducing losses from natural disasters by supporting programs for observing, documenting, understanding, assessing, and predicting the potential consequences of natural hazards.

Following a series of workshops held across the country with more than 1,000 key stakeholders, OSTP hosted a White House Conference to discuss ways to implement the National Environmental Technology Strategy. The required improved efficiency in our technological infrastructure is being achieved through collaboration among industry, academia, and communities to develop long-term goals, measure performance on multiple scales, and implement complementary policies to encourage high levels of innovation. Anticipating future needs is critical to achieving successful improvements in efficiency.

OSTP played a key role in a number of domestic and international science assessments. In climate change research, OSTP continued its role in coordinating scientific and technical assessments to support the U.S. delegation to the Framework Convention on Climate Change. A planning framework for Federal research related to the human health and ecological effects of endocrine disrupting chemicals was developed and an inventory of related on-going Federal research programs was completed.

*Technology*.—OSTP led the effort to reshape agency research programs in information technology through the NSTC Committee on Computing, Information, and Communications. This group designed and is leading the Next Generation Internet (NGI) initiative, launched in October 1996. The NGI initiative is a three year, $300 million investment that will create the foundation for the networks of the 21st century.

OSTP continued its active role in the Administration's education technology programs. OSTP has provided broad support for the President's Technology Initiative, launched in February 1996, which has included public/private partnership activities such as NetDays, Tech Corps, Cyber Ed, and the Technology Literacy Challenge (TLC). The TLC program challenges communities to form local partnerships of school systems, colleges, universities, and private businesses, to develop creative new ways to use technology for learning. In fiscal year 1997, 24 finalists were awarded grants to communities in 16 states. An interagency team under NSTC, developed a set of research priorities which shaped agency R&D funding for education technology.

OSTP, through both its Technology and its National Security and International Affairs divisions, provided technical support for the White House Commission on Aviation Safety and Security. OSTP is also coordinating the new interagency research program on advanced air traffic management, developed in response to the Commission's recommendations.

Other OSTP efforts included: (1) providing continued leadership for the Partnership for a New Generation of Vehicle program; (2) developing an integrated plan for R&D in transportation and launching a number of implementation efforts; (3) initiating a project to streamline and coordinate the regulatory permitting of construction projects by developing model regulations and standards; and (4) initiating cooperative agreements with the Departments of Energy and Agriculture to evaluate the near- and long-term potential for biomass to serve as a major fuel source for electricity generation and for converting biomass fuels for transportation. This effort led to three pilot biomass energy projects in 1996.

OSTP played a leadership role in the broad interagency review and revision of the National Space Policy released last September. OSTP has ongoing White House oversight responsibility for the International Space Station and Space Shuttle programs, national R&D strategies for satellite technology, launch vehicle systems in international trade, and global communications technologies. OSTP supported the President in commissioning an independent review of the Space Shuttle program, which reaffirmed the operational safety of the Space Shuttle. OSTP coordinated the White House response to the discovery that life may have existed on ancient Mars and organized the Vice President's Space Science Symposium in December. OSTP worked with OMB to define a stable and balanced budget for NASA that continues to support our ongoing mission priorities while enhancing our commitment to science. OSTP continues to co-chair with the National Economic Council, an interagency and international process designed to transform the current intergovernmental organizations INTELSAT and INMARSAT into competitive, fully-private satellite communication firms.

*Science*.—OSTP led the effort to ensure that basic research budgets were given high priority in the fiscal year 1998 budget request and in the outyears. OSTP also led an effort to follow up on the results of the Presidential Decision Directive (PDD) on reforming DOD, DOE, and NASA national laboratories. This effort indicated that substantial progress has been made in meeting the goals of the PDD, but much remains to be done.

OSTP initiated the first Presidential Early Career Award for Scientists and Engineers. This award was given to sixty young scientists who have made outstanding scientific contributions and who have the leadership potential to keep our Nation on the cutting edge of scientific and engineering advancement. OSTP also initiated the first Presidential Award for Excellence in Science, Math, and Engineering Mentoring, given to ten individuals and to six institutions that have demonstrated a high degree of commitment to promoting diversity in the S&T community.

Working with the NSTC, OSTP staff developed the Children's Initiative, which addresses the need to better tie Federal actions that impact children to sound science. As the Initiative develops it will identify research gaps in a variety of areas relating to the health and well-being of children and promote tighter linkages to pol-

icy making. Other accomplishments related to children include the OSTP, DPC, NSF, and DoEd collaboration on how to improve the performance of our Nation's eighth graders in math.

The Presidential Advisory Committee on Gulf War Veterans' Illnesses, for which OSTP had White House responsibility, released to the President its final report that evaluated a number of potential causes for illnesses reported by Gulf War veterans, and contained numerous recommendations on how we can improve the treatment of these veterans and how we can prevent similar problems in future conflicts. An interagency response to the Committee's report was delivered to the President on March 7, 1997. OSTP also launched the National Bioethics Advisory Commission and was instrumental in arranging for appropriate levels of funding. The Commission was recently charged by the President to address the legal and ethical issues associated with cloning human embryos.

*National Security and International Affairs*.—OSTP coordinates, in conjunction with the National Security Council, both the national and international aspects of U.S. efforts to dispose of worldwide stocks of excess weapons-grade plutonium. OSTP played a key role in the successful October 1996 conference of experts on plutonium disposition that was called for by the April 1996 Nuclear Safety and Security Summit. OSTP co-chairs a joint U.S.-Russian Plutonium Disposition Steering Committee, which oversees the government-to-government collaboration in this area and delivered the first-ever joint study of plutonium disposition options last September. This committee continues to meet and to coordinate both studies and demonstration projects.

OSTP provided technical analyses and advice to the White House during negotiation of the Comprehensive Test Ban Treaty (CTBT), and OSTP has led the interagency effort to ensure that existing U.S.-operated global seismic networks will be adequately supported to fulfill the international CTBT verification mission assigned to them under the Treaty. More generally, OSTP has provided important S&T policy perspectives in a variety of key national security areas including aviation security, critical infrastructure protection, the banning of antipersonnel landmines, counterterrorism, information warfare, and ballistic missile defenses.

To more effectively address the growing global threat of emerging and reemerging infectious diseases, at the President's direction OSTP took the lead in forming an interagency task force to address this issue. The Task Force has initiated activities to strengthen disease surveillance, prevention, and response, including the development of a global disease surveillance network.

OSTP has worked successfully to expand U.S. S&T relationships with important trading partners and economies in transition to strengthen benefits to our national security, economic, and scientific goals. Through the Gore-Chernomyrdin Commission OSTP played a lead role in the effort to develop guidelines for intellectual property rights protection for government agreements and contracts with Russia, to reach agreement on a plan to promote the use of the Internet in Russia, and to build support for the U.S. Civilian Research and Development Foundation for the Independent States Forum of the Former Soviet Union. OSTP has also supported international S&T efforts to address policy priorities through other high level bilateral commissions with South Africa and Egypt, and through the evolving Sustainable Development Forum with China. S&T partnerships have been strengthened with Japan, such as in the creation of an Earthquake Disaster Mitigation Partnership, and OSTP is participating in negotiations over an S&T agreement with the European Union.

OSTP has also taken the U.S. Government lead in several multilateral fora as a way to promote U.S. interests and maximize the value of U.S. S&T investments. OSTP worked closely with the technical agencies and OMB to coordinate the U.S. Government's negotiating position on such international projects as the Large Hadron Collider, the Human Frontier Science Program, and the International Thermonuclear Experimental Reactor. OSTP promoted the creation of a follow-on mechanism to the OECD Megascience Forum. In Asia, OSTP led U.S. participation in the APEC Science and Technology Ministerial, and in Latin America, OSTP had a lead in organizing the first-ever meeting of S&T Ministers. Both fora have launched S&T initiatives that are useful in promoting U.S. S&T interests in these regions.

Mr. Chairman and Members of the Committee, I hope that this brief overview has conveyed to you the extent of this Administration's commitment to advancing S&T in the national interest, and the importance of OSTP's role in the national S&T enterprise.

Regardless of party affiliation, we can all agree that investments in S&T are investments in our Nation's future. I look forward to achieving bipartisan support for a national S&T strategy that will combine the resources of industry, academia, non-

profit organizations, and all levels of government to advance knowledge, promote education, strengthen institutions, and develop human potential.

I ask not only for your support for OSTP's fiscal year 1998 budget request but also want you to know how much I appreciate the long-standing bipartisan support of the committee for OSTP and for the S&T research enterprise. I would be happy to answer any questions that you have.

---

APPENDIX A. REPORTS ISSUED BY THE NSTC DURING CALENDAR YEAR 1996

1. Interagency Assessment of Potential Health Risks Associated with Oxygenated Gasoline, NSTC Committee on Environment and Natural Resources, February 1996.
2. Meeting the Challenge (A Research Agenda for America's Health, Safety, and Food), NSTC Committee on Health, Safety, and Food, February 1996.
3. United States Antarctic Program, NSTC Committee on Fundamental Science, April 1996.
4. Strategy for National Earthquake Loss Reduction, NSTC Committee on Environment and Natural Resources, April 1996.
5. NSTC Accomplishments B Calendar Year 1995, NSTC Executive Secretariat, May 1996.
6. Human-Centered Transportation Systems Brochure, NSTC Committee on Transportation, May 1996.
7. Assessing Fundamental Science Report, NSTC Committee on Fundamental Science, July 1996.
8. Program Guide to Federally-Funded Environment and Natural Resources, NSTC Committee on Environment and Natural Resources, June 1996.
9. Environmental Technologies Testing and Demonstration Sites: A federal Directory, NSTC Committee on Environment and Natural Resources, September 1996.
10. Our Changing Planet: The fiscal year 1997 U.S. Global Change Research Program, NSTC Committee on Environment and Natural Resources, September 1996.
11. Committee on Environment and Natural Resources Brochure, NSTC Committee on Environment and Natural Resources, September 1996.
12. The Federal Research and Development Program in Materials Science and Technology, NSTC Committee on Technological Innovation, November 1996.
13.High Performance Computing and Communications (HPCC) Advancing The Frontiers of Information Technology, NSTC Committee on Computing, Information, and Communications, November 1996.
14. The Health and Ecological Effects of Endocrine Disrupting Chemicals: A Framework for Planning, NSTC Committee on Environment and Natural Resources, November 1996.

---

APPENDIX B. REPORTS ISSUED BY PCAST DURING THE FIRST CLINTON ADMINISTRATION

Report of the PCAST Panel on U.S.-Russian Cooperation to Protect, Control, and Account for Weapons-Useable Nuclear Materials (May 1995).

The U.S. Program of Fusion Energy Research and Development (July 1995).

Science and Technology Principles (September 1995), Report to the President on Academic Health Centers (November 1995).

Principles of the U.S. Government's Investment Role in Technology (June 1996).

Report on Research Universities (June 1996).

Report on Preventing Deadly Conflict (November 1996).

Report on Sustainable Development (January 1997).

## ADDITIONAL COMMITTEE QUESTIONS

[The following questions were not asked at the hearing, but were submitted to the Office for response subsequent to the hearing:]

### QUESTIONS SUBMITTED BY SENATOR BOND

#### RESULTS OUT VERSUS DOLLARS IN

*Question.* As you know, we in Congress are very interested in the Government Performance and Results Act, which we've shortened to "the Results Act." Given the focus of the Results Act, it might be more important to look at what is coming out of the federal investments in R&D in terms of results, and not just at the dollars going into the program. The Council on Competitiveness recently issued a report en-

titled "Endless Frontier, Limited Resources," setting scientific priorities and defining a more realistic, pragmatic framework for allocating federal resources. In recent years, the National Academy of Sciences has also issued several reports which require setting priorities with the federal science and technology budget.

What role does the Office of Science and Technology Policy play in setting national scientific priorities? Is OSTP involved in developing guidance to R&D agencies on how to measure for results and the setting of appropriate outcomes for R&D programs?

Answer. The Office of Science and Technology Policy (OSTP) plays both a leadership and a coordination role in setting national scientific priorities and in mobilizing scientific expertise to accomplish national goals. OSTP advises the President of the United States on policy and budget formulation in matters in which science and technology are important elements. OSTP also coordinates the development and implementation of the Administration's domestic and international science, research, and technology policies, programs, and budgets in support of the President's goals for strengthening the economy and creating jobs, improving education and health care, enhancing the quality of the environment, harnessing information technology, and maintaining national security. More information about national scientific priorities and OSTP's role in both setting and communicating them can be found in Science in the National Interest (1994), Building a Scientific Basis to Ensure the Vitality and Productivity of U.S. Ecosystems (1995), National Security Science and Technology Strategy (1995), Technology in the National Interest (1996), and Meeting the Challenge: A Research Agenda for America's Health, Safety, and Food (1996). The Administration's biennial report to the Congress: Science and Technology Shaping the Twenty-First Century (1997) provides a comprehensive overview of the substance and process of OSTP's role in guiding the development of science and technology policy.

OSTP is involved in developing guidance for R&D agencies and is working with them in partnership with the Office of Management and Budget (OMB) on the important tasks of strategic planning, goal setting, and creating performance plans with meaningful, reasonable, and measurable target outcomes. Recognizing both the importance and the challenge of designing a planning and assessment methodology for fundamental science that would satisfy the requirements of the Results Act (1993), OSTP took the initiative in 1994 to conceive and initiate the Assessment Process under the auspices of the National Science and Technology Council (NSTC). The NSTC Assessment Process involved senior scientific managers from ten major R&D agencies, OMB, and OSTP and was charged to establish a framework for implementing Results Act requirements in assessing fundamental science programs. The report, "Assessing Fundamental Science," was published in 1996, and provides guidance to R&D agencies for their development of strategic and performance plans. The report also provides a set of principles for use by these agencies for designing and testing a range of methods appropriate to their particular goals and programs. In partnership with OMB, OSTP is now working with the individual R&D agencies to develop and fine tune their strategic and performance plans and to ensure that they are responsive to the requirements of the Results Act. These plans should be useful as management tools for the agency and the Administration, and should promote scientific excellence, high productivity, and accountability to the taxpayer, without creating an unreasonable and costly bureaucracy that detracts from program outcomes.

ROLE OF THE NATIONAL SCIENCE AND TECHNOLOGY COUNCIL (NSTC)

*Question.* Two years ago, we asked you what role the NSTC played in the formulation of the President's fiscal year 1996 budget. You said that NSTC committees had compiled the "lessons learned" from that process, and were streamlining the process for fiscal year 1997. Could you please update us on the progress of the "lessons learned?" What was NSTC's role in developing the fiscal year 1998 budget? What grade would you give the NSTC in fiscal year 1997? In fiscal year 1996?

What other role does the NSTC play, in addition to its role in developing the President's budget request? How have the NSTC roles evolved over time?

Answer. The President established the NSTC in 1993 to coordinate the diverse parts of the federal research and development (R&D) enterprise and to foster synergy among the varied talents of the federal science and technology (S&T) workforce. This coordination includes the federal R&D budget, as well as S&T policy making. In November 1996, the NSTC completed its third year of operation and moved from the identification of strategic goals, as defined in the 1995 NSTC committees' strategic plans, to implementation of specific initiatives that redirect the

federal government's investments in S&T toward fundamental national goals, while streamlining government and saving taxpayers' dollars.

At the beginning of the Clinton Administration, the President committed to integrating agency R&D budgets to ensure that the nation's S&T investments serve broad national goals as well as agency missions. This is the most important budget issue addressed by the NSTC. Starting with the fiscal year 1996 budget, the NSTC has been using a process designed to improve the way priorities are set in federal R&D expenditures. This process starts in the spring each year with R&D budget guidance to the NSTC departments and agencies, issued jointly by the Directors of the Office of Science and Technology Policy (OSTP) and the Office of Management and Budget (OMB). This guidance is developed through the NSTC process, a mechanism for building consensus throughout the federal S&T enterprise, and reflects the President's budget message for that year. The NSTC departments and agencies are instructed to examine their base programs carefully and focus and/or redirect funds into the identified R&D priority areas within the budget constraints provided from OMB.

Following the initial joint OSTP/OMB R&D budget guidance, issued for the fiscal year 1996 budget, feedback was solicited and received from the nine NSTC committees (which represent all NSTC member departments and agencies) on how to improve the process in preparation for the fiscal year 1997 budget guidance. This feedback mechanism or "lessons learned" is used each year to continuously streamline the R&D budget priority setting process and make it more useful for the NSTC departments and agencies. The joint OSTP/OMB budget guidance memorandum for fiscal year 1999 reflects three years of evolution in the S&T priority setting process through the NSTC.

For fiscal years 1996, 1997 and 1998, the NSTC R&D budget guidance process resulted in positive outcomes for the overall S&T budgets by concentrating federal spending on critical national priorities. Each year, by the time the agency budgets were submitted to OMB in the fall, agencies had already made trade-offs by eliminating programs that did not correspond to the priority areas identified in the OSTP/OMB R&D budget guidance.

In addition to the NSTC's role in developing the President's R&D budget request, the NSTC effectively provides a venue for developing interagency consensus on major S&T policy decisions. The NSTC review process ensures that all agencies impacted by a decision are afforded an opportunity to provide thoughtful input. The NSTC Presidential Decision Directive (PDD) is one mechanism used to implement major policy decisions, often having budgetary implications.

Examples of recent NSTC accomplishments include:

—*National Bioethics Advisory Commission*.—To address bioethical issues arising from research on human biology, the President appointed 18 non-government experts to serve on the National Bioethics Advisory Commission (NBAC) under the auspices of the NSTC. The NBAC charter was signed by the Assistant to the President for Science and Technology in June 1996 and NBAC met for the first time in October 1996. NBAC recently advised the President on appropriate policy regarding cloning research results announced in February 1997.

—*United States Antarctic Program*.—The NSTC conducted a review of the United States Antarctic Program, concluding that the science performed under that program was of high quality and high interest and should be maintained within funding constraints.

—*U.S. Research Universities*.—In response to communications to the President from the President's Committee of Advisors on Science and Technology (PCAST) and other national, political, corporate, and educational leaders emphasizing that the nation's university research system was going through a period of stress, Dr. John H. Gibbons issued a Presidential Review Directive to evaluate the need to revisit federal policies concerning the capacity of U.S. universities to meet the nation's research and educational requirements of the next century. The resulting NSTC review will be completed in Fall 1997.

—*Federal Laboratory System*.—During the summer 1996, OSTP assessed each agency's response to the Federal Laboratory Reform Presidential Decision Directive (PDD). The review confirmed that the agencies are making progress in meeting the PDD goals, however, much still needs to be done to be fully responsive. Opportunities exist to advance the goals of the PDD through simplified directives and better use of federal personnel rules and other regulations.

—*Education*.—The NSTC established and presented awards through two new programs: (1) Presidential Awards for Excellence in Science, Mathematics, and Engineering Mentoring; and (2) Presidential Early Career Awards for Scientists and Engineers (PECASE). The Presidential Awards for Excellence in Science, Mathematics, and Engineering Mentoring program was established in 1996 as

one strategy to achieve the goal of developing a pool of highly trained scientists and engineers that reflects the nation's diverse population. President Clinton named 10 individual and six institutions as the first recipients of this award in September 1996. The PECASE award recognizes demonstrated excellence and promise of future success in scientific or engineering research, and the potential for eventual leadership of the recipients in their respective fields. In December 1996, the President selected 60 individuals to receive the first annual PECASE awards.

The work of the NSTC has also supported the President's Educational Technology Initiative, launched in February 1996, and has included public/private partnership activities such as NetDays, Tech Corps, and America's Technology Literacy Challenge.

—*Dual-Use Technologies*.—To address civil, military, scientific, and commercial interests, Presidential Decision Directives were issued for National Space Policy (PDD NSTC–8) and the Global Positioning System (PDD NSTC–6).

—*Children's Research*.—The NSTC developed a policy statement on children's issues, "A National Research Initiative for Children for the 21st Century," that examines the federal research agenda on the biological, cognitive, and social development of America's children and adolescents.

—*Environmental Quality*.—The NSTC fostered the development of partnerships between the federal government and non-federal researchers working toward improving environmental quality by making information available to the public on: (1) federal environmental testing and demonstration sites; and (2) federally-funded environment and natural resources R&D.

—*High-Performance Computing, and Communications (HPCC) Advisory Committee*.—On February 11, 1997, the President signed the Executive Order establishing the Advisory Committee on High-Performance Computing, and Communications (HPCC), Information Technology, and the Next Generation Internet. This Advisory Committee will provide guidance and advice on all areas of advanced computing, communications and information technologies. The Committee has already completed an initial review of plans for the Administration's Next Generation Internet Initiative (NGI) and concluded the NGI is essential to sustaining U.S. technological and commercial leadership in computing and communications. Members bring together a broad range of expertise and interests from business and universities.

—*Emerging Infectious Diseases*.—In response to an NSTC study, Vice President Gore announced a Presidential Decision Directive directing the federal government to strengthen the United States' ability to respond to the growing threat of emerging and re-emerging infectious diseases. This NSTC has begun a tracking process of our investments in this important field of research. We are now able to look across agencies and understand what the federal R&D effort includes.

—*Partnerships*.—The NSTC also fosters collaborations between industry, academia, and federal, state and local governments.

—*The Partnership for a New Generation of Vehicles (PNGV)*.—Each of the Big Three U.S. automakers—Ford, Chrysler, and General Motors, working with small and medium sized suppliers and leveraging collaborative research with government agencies—produced a PNGV concept vehicle demonstrating different "Supercar" possibilities. The partnership includes research on: (1) manufacturing productivity improvement; (2) near-term improvement in fuel efficiency and emission reduction; and (3) development of a production prototype by the year 2010 that can achieve three times the fuel efficiency of today's vehicles with comparable cost and performance.

—*National Electronics Manufacturing Initiative (NEMI)*.—The NSTC undertook an initiative with the American Electronics Association (AEA) to develop a research partnership with the nation's electronics manufacturing industry. This effort came to fruition on March 13, 1996, with the announcement of National Electronics Manufacturing Initiative, Incorporated (NEMI), a consortium created to ensure the sustained growth and competitiveness of electronics manufacturing in the U.S. NEMI is an industry-funded, industry-led, private-public partnership that brings together the largest electronic equipment manufacturers in the U.S. and their key suppliers with government agencies to foster development of the world's best electronics manufacturing supply chain. NEMI is a prime example of the NSTC providing an initial federal government impetus to stimulate collaboration and growth of a non-government activity.

—*Building and Construction*.—In the area of construction and building, progress was made toward streamlining and coordinating regulatory permitting of construction projects, as well as meeting the National Construction

Goals and supporting the Department of Housing and Urban Developments' National Home Ownership Strategy.

—*United States Innovation Partnership (USIP).*—To enhance the technology partnerships between the federal and state governments, the United States Innovation Partnership (USIP) was established. A Memorandum of Understanding (MOU) between OSTP, the Department of Commerce (DOC), and the National Governors Association (NGA), outlining policies and procedures for USIP, has been approved by all parties. There are plans for the MOU to be signed the week of June 23 in the home states of the NGA lead-Governors on technology, Governor John Rowland, Connecticut, and Governor Paris Glendening, Maryland. The NGA and DOC issued solicitations for state and federal participants in Task Forces for initial USIP projects. A federal agency or department head and a governor will be sought to act as champions for selected projects.

The NSTC developed several major science and technology policies that drive the activities of several NSTC committees and have led to some of the accomplishments listed above.

—Technology in the National Interest (July 1996) outlines the rich portfolio of policies and programs being carried out by departments and agencies across the federal government to ensure that technology remains the key driver of the nation's economic growth, leading to creation of high-wage jobs in the U.S. and an improved standard of living and quality of life for the American people.

—Meeting the Challenge (February 1996) laid out the following five initiatives: (1) establish the Presidential Early Career Scientist Award; (2) strengthen domestic health, safety, and food data systems; (3) strengthen the integrated, multidisciplinary human nutrition research initiative; (4) develop an integrated research agenda to develop technologies to assure the safety and quality of food for consumers; and (5) develop methods for assessing exposures and other factors influencing health.

—National Security Science and Technology Strategy (September 1995) was the nation's first national security S&T strategy document to describe how U.S. investments and international cooperation in S&T support the full range of U.S. national security objectives. This report offers a policy context for a rigorous defense of Clinton Administration initiatives, including the Cooperative Threat Reduction (Nunn-Lugar) Program, the Advanced Technology Program, and economic development programs aimed at mitigating or addressing the problems of endemic poverty, overpopulation, food scarcity, infectious diseases and environmental degradation. This report focuses on the importance of investments in support of military superiority, verifiable arms control, sustainable development abroad, and economic performance at home.

—Preparing for the Future Through Science and Technology, An Agenda for Environmental and Natural Resources Research (March 1995) is a multidisciplinary environmental strategy that provides the scientific and technical information needed for national and international policy formulation and to assure the most efficient use of scarce research and development resources. This strategy was developed by the NSTC, with assistance from stakeholders from academia, industry, and state and local governments.

—Science in the National Interest (August 1994) is the Administration's statement on science policy released by the Vice-President. The first such statement in 15 years, this document presents policy objectives for the Nation's research enterprise. It is the product of extensive NSTC consultation, combined with the input received at the forum held on January 31–February 1, 1994.

The Clinton Administration considers science and technology an important investment for America's future. Our nation relies on federal investments in science and technology to contribute to: the growth of our economy; the health of our citizens; the sustainability of our environment and natural resources; the United States' leadership in critical world markets; the education of our children; the ensuring of our national security; and the addressing of global problems through cooperation with other countries.

Since its establishment, the NSTC has served a vital role in identifying and prioritizing how federal investments in science and technology can be wisely applied toward addressing our nation's critical needs, in the context of balancing the budget. The NSTC has made considerable progress in helping federal research and development organizations evolve from an autonomous, fiscally expansive environment to a collaborative fiscally constrained one. There is still much progress to be made, however, in integrating our federal R&D efforts to face the challenges in the areas of education, transportation systems, energy resources, human health, national security, and the environment. Working through the NSTC will become even more

compelling as the players are more comfortable with change, as innovators recognize the untapped opportunities, and the federal research and development enterprise is guided toward a unified set of goals.

FEDERAL INVESTMENTS IN PRODUCING NEW SCIENTISTS AND ENGINEERS

*Question*. In 1993, there were about 2.5 million people in the U S. with graduate degrees in science or engineering. In addition, there were about 330,000 science and engineering graduate students. Over 70 percent of the scientists and engineers with Ph.D.'s were working in science and engineering, in their own or a closely related field.

Yet, there are repeated complaints from young scientists that their opportunities for a career in science are abysmal. In my own state of Missouri, at least one university has tried to address this problem. Washington University in St. Louis has recently chosen to scale back the number of students to those the university can provide full financial support for six years, rather than producing as many students as they can.

What should the federal government's role be in assisting the development of the next generation of scientists and engineers? Are we overproducing scientist and engineers? Are we producing the right kind of scientists and engineers?

Answer. For forty years since enactment of the National Defense Education Act of 1958, the federal government has played a role in the support of graduate students seeking a career in science or engineering. Through fellowships, traineeships, and research assistantships, students gain experience and become professionally socialized as team members and apprentice researchers. But the Committee's question about graduate degrees is integrally related to an even larger issue: the health of research institutions and the strength of the government-university partnership. The President has received letters from national, political, corporate and education leaders warning that universities are stressed in a number of ways, and urging a policy and administrative review of the government-university partnership. The President's Council of Advisors on Science and Technology also urged such a review. Accordingly, I have established an interagency Task Force under the auspices of the NSTC to review the status of the federal government-university partnership and recommend options for strengthening it. The Committee's question regarding the number of Ph.D.'s produced through this partnership is central to the issues being addressed by the Task Force: the policies, programs, and regulations that shape the partnership, the education of graduate students, and research administration. In addition, the Task Force will consider mechanisms that can help sustain the strong U.S. tradition of innovative research, even under current budgetary and other constraints. How we utilize new Ph.D.'s is an important element of whether or not we continue to get new ideas into the system.

The Task Force's work constitutes a first step in a multi-step process. In this first phase, expected to be completed this fall, the Task Force will recommend actions to the NSTC through its Committee on Fundamental Science. Follow-on activities will also be identified at that time. The Task Force is chaired by the Acting Associate Director for OSTP's Science Division, and is composed of representatives from the six major research funding agencies: DOD, DOE, NASA, NIH, NSF, and USDA. Both OMB and the National Performance Review are also represented. RAND's Critical Technologies Institute, the Federal Demonstration Partnership, and the NAS Government-University-Industry Research Roundtable are providing crucial assistance and insight based on their extensive experience in this area.

I would like to address one special concern I have about the impact of depressed demand for science and engineering Ph.D.'s, and that is the continued and persistent under representation of women, persons of color, and persons with disabilities in the science and engineering workforce. With market opportunities sluggish in the 1990's, new Ph.D.'s have experienced unprecedented under-employment rates in mathematics and strikingly high rates in physics and chemistry. In general, there are fewer positions to be found in research universities. But students recruited from traditionally under represented categories receive less financial support, experience higher attrition at each succeeding educational stage, and complete proportionately fewer degrees relative to their number in the pool. And those who do earn the Ph.D. still face lesser career prospects in terms of full-time employment, tenure-track status, promotion to full professor, etc.

So at a time of constrained opportunity for all, diversity suffers. At present, the student pool is becoming more ethnically diverse with foreign citizens earning a majority of the doctoral degrees from U.S. institutions in some science and engineering disciplines. There is the perception and perhaps the reality—that science and engineering are not rewarding career choices for U.S. students. We must be concerned

about what this means not only in terms of individual career choices, but about what it means for the future of the nation. We must therefore consider the impact of federal policies and graduate support mechanisms on the future vitality of our nation's scientific enterprise and economic competitiveness.

INTERNATIONAL COOPERATION VERSUS INTERNATIONAL COMPETITION

*Question.* One of the key R&D goals of the Administration is to "maintain world leadership in science, engineering, and mathematics." Yet another important strategy of the Administration seems to be involving our sometimes competitors as international partners. How do you perceive the difference between international cooperation and international competition?

More specifically, there have been reports that Japan intends to increase their investments in R&D, particularly at colleges and universities, by a substantial amount. Some seem to see that increase as a threat, and others see it as an opportunity. What is your view?

Answer. International cooperation and international competition are both important drivers of innovation. Embracing the benefits of both is essential to advancing U.S. science and technology policies. In many parts of the globe today, a clear rise in sources of innovation in science and technology creates expanded opportunities to leverage international cooperation and international competition to benefit our society and our economy.

Cooperation among nations is becoming more essential to our goals in science and technology for several reasons, including: (1) a growing number of the challenges that we face are regional or global and require an international solution; (2) the scale of resources needed to tackle priority issues stretch the capability of support by any one nation, but can be addressed through cooperation; and (3) finding solutions to problems of common concern can be accelerated. For example, cooperation among nations in environmental research is expanding rapidly and has been essential in deciphering climate changes and other complex interactions in our planet's system; understanding the fundamental nature of life and matter are large-scale efforts that advance more rapidly by pooling international resources; and in the fight against emerging infectious diseases or the mitigation of natural disasters, the U.S. shares an interest with all nations in bringing the best science and technology to bear, with other nations having important assets and experiences to share.

I should also note that an important benefit of international cooperation in science and technology is its value in helping to defuse the sources of conflict abroad. Steady cooperation between U.S. and Soviet scientists during the Cold War has been of significant value in the post-Soviet era in smoothing that transition and in dealing with critical issues such as the management and disposition of nuclear materials.

International competition is also a resource in advancing innovation. To the extent that international advances spur further innovation in the United States, we are all better off as it drives all of us to greater heights. However, this requires that the U.S. makes the investments needed to stay at the forefront of science and technology and works with other nations to remove barriers to innovation and trade that handicap our interests. Domestically, we must maintain the investments that we need to keep up with the pace of international competition. Internationally, we are working with the U.S. Trade Representative and other agencies to remove regulations and practices that are discriminatory against U.S. innovations and to achieve fair and consistent protection for intellectual property. We are supporting work to develop international regimes such as the Multilateral Agreement on Investments that will help to protect our competitive edge.

With regard to Japan, we are currently assessing its Basic Plan for Science and Technology, for potential impacts on our science and technology relations. This ambitious plan calls for substantial increases in government support for science and technology and major reforms in the public system of innovation. Under the Committee on International Science, Engineering and Technology of the NSTC we have formed a Working Group on Japan. This Working Group is charged with broadly examining our bilateral relations in science and technology to identify areas in which we can strengthen the value to the U.S. of this partnership. The increases in investments being undertaken by the government of Japan, particularly in the universities, will spur their innovative capability and will surely bring long-term benefit to their economy and societal well being. These increases will ultimately lead to greater competition for the U.S. in future markets, but they will also create greater opportunities for leveraging research cooperation to more effectively address common concerns.

One of the challenges that we face is pressing for reciprocal access to Japan's resources for innovation, a challenge that continues to need attention. A concern that has been raised by the U.S. members of the U.S.-Japan Joint High Level Advisory Panel on science and technology is that Japan develop transparent processes for access to its universities and clear protection of intellectual property. Another area of concern continues to be the substantial asymmetry in exchange of scientific and technical personnel and in the flow of information. We will continue to work with Japan to ensure that more Americans participate in Japan's research system and that information is made more easily available from Japan, exploiting the capabilities of machine translation and the Internet.

It is our responsibility to engage with the innovation community in Japan, to gain from their advances in science and technology as they have gained from our open system, and to encourage Japan to join with the U.S. and other nations in taking leadership to address common international concerns. We have had a recent success in the rapidly expanding area of global change prediction, where Japan plans to increase its investment four-fold in five years. In this area, the government of Japan has been forthcoming in seeking mutually beneficial cooperation. The U.S. government must ensure that engagement with Japan, and with other nations, is given appropriate priority because achieving the benefits of international cooperation and competition for the U.S. will depend on our deep commitment to success.

OSTP BUDGET

*Question.* Please provide travel costs by division within OSTP for fiscal year 1995 and fiscal year 1996, differentiated into domestic and international travel. Also, please provide projected travel costs for fiscal year 1997.

Answer. Please see attached chart.

| Divison | Fiscal Year 1995 | | | Fiscal Year 1996 | | |
|---|---|---|---|---|---|---|
| | Local travel | Domestic | International | Local travel | Domestic | International |
| Director | $294.20 | $12,111.19 | $16,031.88 | $282.23 | $16,058.97 | $9,235.87 |
| Environment | 547.50 | 16,225.08 | 24,087.81 | 769.50 | 20,637.24 | 16,155.53 |
| National Security and International | 1,555.12 | 703.10 | 42,727.02 | 2,521.31 | 2,575.96 | 43,499.82 |
| Science | 2,131.05 | 29,932.90 | 2,619.61 | 1,767.10 | 15,949.12 | 7,749.19 |
| Technology | 862.10 | 10,659.45 | 14,156.39 | 868.05 | 14,267.76 | 7,642.97 |
| PCAST | 751.65 | 33,707.88 | ..... | 613.25 | 26,945.09 | ..... |
| Budget and Administration | 214.25 | ..... | ..... | 320.30 | ..... | ..... |
| Subtotal | 6,355.87 | 103,339.60 | 99,622.71 | 7,141.74 | 96,434.14 | 84,283.38 |
| Grand total | | 209,318.18 | | | 187,859.26 | |

| Divison | Fiscal Year 1997 to date | | | Fiscal Year 1997 remaining | | |
|---|---|---|---|---|---|---|
| | Local travel | Domestic | International | Local travel | Domestic | International |
| Director | $22.00 | $6,472.61 | $22,631.79 | $1,428.00 | $5,400.00 | $8,000.00 |
| Environment | 735.42 | 17,469.21 | 1,141.51 | 714.58 | 7,100.00 | 2,600.00 |
| National Security and International | 1,361.68 | 75.36 | 39,202.44 | 88.32 | ..... | 12,800.00 |
| Science | 606.41 | 13,701.72 | 5,981.58 | 843.59 | 4,115.00 | 2,550.00 |
| Technology | 107.70 | 7,881.09 | 6,076.25 | 1,342.30 | 11,500.00 | 800.00 |
| PCAST | 377.95 | 25,221.70 | ..... | 122.05 | 13,074.00 | ..... |
| Budget and Administration | 108.55 | 3,050.77 | ..... | 141.45 | ..... | ..... |
| Subtotal | 3,319.71 | 73,872.46 | 75,033.57 | 4,680.29 | 41,189.00 | 26,750.00 |
| Total | | 152,225.74 | | | 72,619.29 | |
| Grand total | | | 224,845.03 | | | |

*Question.* Please provide data, by division, on FTE's, and reimbursed and non-reimbursed detailees for fiscal year 1995 and fiscal year 1996, and projections for fiscal year 1997.

Answer. The attached table illustrates OSTP's personnel expenses, FTE's, detailees, non-reimbursed detailees, and reimbursed IPA's.

SUMMARY OF OSTP PERSONNEL EXPENSES—FISCAL YEAR 1995 THROUGH FISCAL YEAR 1997 (ESTIMATED)

| Division | Fiscal year 1995 | | Fiscal year 1996 | | Fiscal year 1997 estimate | |
|---|---|---|---|---|---|---|
| | Salary/benefits | FTE count | Salary/benefits | FTE count | Salary/benefits | FTE count |
| Director's Office—FTE's | $610,825.98 | 7.34 | $654,454.72 | 7.29 | $709,954.06 | 8.25 |
| Environment—FTE's | 470,320.54 | 5.00 | 345,619.30 | 4.00 | 340,318.45 | 3.83 |
| National Security and International—FTE's | 437,329.81 | 5.50 | 573,038.81 | 6.70 | 674,412.69 | 7.70 |
| Science—FTE's | 349,816.04 | 4.67 | 356,466.53 | 5.58 | 330,912.26 | 3.92 |
| Technology— FTE's | 644,867.35 | 6.70 | 554,432.11 | 5.80 | 432,820.40 | 4.83 |
| Budget and Administration—FTE's | 272,479.24 | 5.42 | $271,611.55 | 4.50 | 310,581.63 | 5.00 |
| PCAST—FTE's | 40,650.76 | 0.88 | 95,625.22 | 0.96 | 46,029.79 | 0.59 |
| Total FTE's, salary and benefits | 2,826,289.72 | 35.51 | 2,851,248.24 | 34.83 | 2,845,029.28 | 34.12 |
| Director's Office—Detailees/IPA's | ..... | ..... | ..... | ..... | $30,000.00 | 0.50 |
| Environment—Detailees/IPA's | $17,125.00 | 0.25 | $38,158.00 | 0.21 | 230,623.02 | 1.67 |
| National Security and International—Detailees/IPA's | 178,809.00 | 1.60 | ..... | ..... | ..... | ..... |
| Science—Detailees/IPA's | 307,873.48 | 3.25 | 266,283.31 | 3.17 | 145,052.38 | 2.46 |
| Technology—Detailees/IPA's | 156,231.00 | 2.00 | 74,888.01 | 1.08 | 87,537.82 | 1.00 |
| Budget and Administration—Detailees/IPA's | ..... | ..... | ..... | ..... | ..... | ..... |
| PCAST—Detailees/IPA's | ..... | ..... | ..... | ..... | ..... | ..... |
| Total detailees/IPA's | 660,038.48 | 7.10 | 379,329.32 | 4.46 | 493,213.22 | 5.63 |
| Lump Sum Leave Payments | 32,550.80 | ..... | 16,165.74 | ..... | 53,058.81 | ..... |
| Overtime Payments | 27,109.57 | ..... | 21,183.25 | ..... | 20,000.00 | ..... |
| Awards | 40,500.00 | ..... | 24,000.00 | ..... | 40,000.00 | ..... |
| Unemployment Compensation | ..... | ..... | 7,713.00 | ..... | 10,000.00 | ..... |
| OPM Buyout Charge | 3,040.00 | ..... | 2,880.00 | ..... | 2,680.00 | ..... |
| Total personnel expenses | 3,589,528.57 | ..... | 3,302,519.55 | ..... | 3,463,981.31 | ..... |
| Budget apportionment or request | 3,754,000.00 | ..... | 3,797,000.00 | ..... | 3,746,000.00 | ..... |
| Difference—Surplus or (deficit) | 164,471.43 | ..... | 494,480.45 | ..... | 282,018.69 | ..... |

With regard to fiscal year 1996 and fiscal year 1997 staffing, these were unusual years. During these two years OSTP had long stretches of time without confirmed Associate Directors. Because incoming Associate Directors should make the decision on permanent staffing replacements for departing staff, in many instances Acting Associate Directors made temporary assignments in order to ensure that required work got done during the transitions. Many of these temporary assignments were in the form of short-term detailees, hiring of consultants, etc. In addition, in most cases individuals currently on staff were named Acting Associate Directors. These individuals have salaries that are $10,000 to $30,000 less than the salaries of confirmed Associate Directors. The combination of unfilled Executive Level III positions and temporary assignments to enable OSTP to meet required deadlines contributed substantially to the excess of personnel funds.

## NATIONAL SCIENCE FOUNDATION

**STATEMENT OF NEAL LANE, DIRECTOR**

**ACCOMPANIED BY DR. JOSEPH BORDOGNA, ACTING DEPUTY DIRECTOR**

Senator BOND. Thank you very much. Dr. Lane.

Dr. LANE. Thank you very much, Mr. Chairman and ranking member Mikulski. I very much appreciate the opportunity to appear before you this afternoon to discuss NSF's budget request for the coming fiscal year. I join my colleague, Jack Gibbons, in expressing my appreciation for the very good working relationship that we have had with the committee under your leadership and under Senator Mikulski's leadership.

I would like to ask your permission, Mr Chairman, if during the question session Dr. Joe Bordogna be permitted to join us at the table.

Senator BOND. We will be happy to do so, and I should have said earlier that we will make your full statements part of the record so that you may just touch on what you feel are the most important items.

Dr. LANE. Thank you. I would also like to submit the statement of Dr. Richard Zare, Chairman of the National Science Board, for the record.

Senator BOND. Without objection, it will be accepted.

Dr. LANE. NSF-supported discoveries have a very large impact on the world, from understanding how plants respond to diseases, and paving the way to plants that resist parasites without pesticides, to developing microbes that purify contaminated groundwater, to using auditory detection strategies first identified in frogs as models for improving hearing aids.

The 1996 Nobel Prize in chemistry was awarded for research that NSF has supported for over a decade on the carbon molecules known as buckyballs. Today, these NSF-supported researchers are stringing buckyballs together to create tiny nanotubes which are 100 times stronger than steel, but only a fraction—one-sixth—of the weight. In the words of the Washington Post, these could be the drop-dead superfiber of the future.

NSF's unique role in support of university-based research and education across all fields has been found to be among the most productive of all public investments. One seminal study has estimated that the rate of return on investments on academic research exceeds 25 percent on an annual basis, outpacing even the market over the long haul.

America's system of higher education sets a world-leading standard of excellence and inclusiveness, yet even this outstanding system faces challenges in preparing students to deal with a rapidly changing scientific and technological world. NSF addresses these

challenges by supporting innovative, systemic approaches to education and training at all levels.

NSF remains committed to delivering the highest possible returns on the Nation's investments. We have traditionally maintained a very low overhead rate and have received national recognition for our commitment to efficiency and productivity.

This past December, NSF became the first Federal agency to receive the prestigious National Information Infrastructure Award, which recognizes innovative uses of the Internet and World Wide Web in business, education, and Government.

Mr. Chairman, our budget request of $3.367 billion will provide us with resources to continue supporting more than 19,000 research and education projects in science and engineering. An increase of $97 million, it represents a strong commitment to research at a time of constrained Federal discretionary spending.

This increase will enable NSF to pursue several initiatives, one of which we call knowledge and distributed intelligence, or KDI. It is designed to push the frontier of Internet use and development to a new level of capability. It has not only major scientific implications, but practical societal benefits as well.

This is a truly remarkable era for research and education in America. The investments in this request will help ensure that our Nation gains full benefit from these emerging opportunities, and that the future brings greater progress and prosperity to all Americans.

We are struck by the recent commitment by Japan to double the Government's research and development budget between the years 1992 and 2000. This is one more reminder that strong support for research and education is essential if the United States is to remain a world-leading economy in the 21st century. How can we expect to compete in the world's aggressive technology-driven markets if we reduce the very investments in people and ideas and instrumentation that creates technology?

## PREPARED STATEMENTS

Mr. Chairman, I thank you for this opportunity to discuss the role of the National Science Foundation in ensuring America's global leadership in science, engineering, and technology, as well as quality education for all Americans.

I would be very pleased to respond to any questions that you or members of the committee might have.

[The statements follow:]

### PREPARED STATEMENT OF DR. NEAL LANE

Mr. Chairman, I appreciate the opportunity to appear today and provide the subcommittee with an overview of the NSF budget request for 1998. For the coming fiscal year, the National Science Foundation requests $3.367 billion. This will allow us to invest in more than 19,000 research and education projects in science and engineering. These investments in people, ideas, and exploring the unknown will guide our future course as a nation and bring new sources of prosperity and opportunity to all Americans.

If one were to take a snapshot of the U.S. economy today, it would show a number of key areas driving growth and opportunity. They come under headings like biotechnology, multimedia, medical imaging, environmental technologies, polymers, decision theory, educational technologies, sensors, and opto-electronics, not to mention

high-speed computational and communications technologies like the Internet and World Wide Web.

Virtually all of these innovations have become widely used within the past few decades. And while these areas are key to productivity in a wide array of industries and sectors, from manufacturing to health care to financial services, they share one important trait—each has deep roots in the support for fundamental research and education provided by the National Science Foundation and other Federal agencies. For example:

—Boeing's new 777 jetliner has been cited as "the most advanced and service-ready jet in commercial aviation history." Yet, the 777 was designed entirely "on screen" bypassing the need for models and mockups, and saving the company an estimated $100 million. The computer-assisted-design and virtual reality systems that underlie this important accomplishment can all be traced to years of sustained public investments in such diverse topics as scientific visualization, fundamental mathematics, rapid prototyping, and other areas that cut across the spectrum of science and engineering.

—On January 2, 1997, a New York Times article on productivity in business opened with the following passage: "Dell Computer Corp. has designed its newest factory without room for inventory storage. Chrysler Corp. can increase vehicle production without building new factories. And General Electric expects to save millions of dollars by purchasing spare parts over the Internet. On the surface, these are manufacturing stories. At heart they are among the thousands of new business practices made possible by technology."

—If an ordinary citizen were asked to name a field of research that is unlikely to generate much in the way of discoveries that would quickly find their way to the marketplace, it would not be surprising if astronomy were mentioned. But the determination of precise positions for satellites can only be accomplished by very long baseline interferometry (VLBI) radio telescopes fixing on distant cosmic radio sources. The Global Positioning System that uses satellites to precisely pinpoint our location at any spot on the globe would be impossible without such precision. GPS has important applications for the military, recreation, transportation, and even for reducing the time and cost of commercial airline flights. GPS is a multibillion dollar industry that would have been impossible without astronomical research.

Moreover, the technologies that made possible these new innovations were in turn made possible by steady and stable Federal support for the instruments and insights needed to extend the frontiers of physics, cosmology, supercomputing, manufacturing research, and other areas of science and engineering that demand the most of new technologies.

Similar success stories abound in today's world, such as bacteria that munch on oil spills, classroom computers that adapt automatically to students' strengths and weaknesses, and new chemical techniques that slash the cost of drug design and development. Each can be traced back to investments in people and ideas through research and education in science and engineering.

In this same way, we have great expectations that recent breakthroughs in fundamental research hold the key to future economic success. For example, the 1996 Nobel Prize in Chemistry was awarded for research on the carbon structures known as buckyballs that NSF has supported for over a decade. Today, these NSF-supported researchers are stringing buckyballs together to create "nanotubes" which turn out to be 100 times stronger than steel but only one sixth the weight. In the words of The Washington Post, these could be the "drop-dead super-fiber of the future." These and other examples bring to life what top economists have been saying for years: public investments in science and engineering yield immense dividends to our economy and society.

Furthermore, NSF's unique role—that of supporting university-based (non-clinical) research and education across all fields and disciplines—has been found to be among the most productive of all public investments. One seminal study[1] has estimated that the rate of return on investments in academic research exceeds 25 percent on an annual basis, outpacing even the stock market over the long haul. Other studies have found an increasingly vital link between our university research base and the competitive position of U.S. industry. Newly awarded patents, for example, draw upon current findings from academic research at a rate never before seen in history.

---

[1] Mansfield, E. 199. "Academic Research and Industrial Innovation." Research Policy 20: 1–12. For a fuller discussion of the rate of return on scientific research, See "Science and Engineering Indicators 1996", Chapter 8.

While these examples provide ample testimony to the success of NSF's past investments, all signs are that they are only the beginning of what is possible—provided we uphold our nation's position of leadership across the spectrum of science and engineering research and education.

As we approach the 21st Century, it is especially noteworthy that other nations—Japan in particular—are demonstrating a growing awareness of the link between a strong science and technology base and a nation's overall economic vitality. U.S. Ambassador and former Vice President Walter Mondale noted this in a recent editorial: "One clear indicator of the seriousness of Japan's R&D efforts is the level of spending * * *." Japan has recently announced a national goal of doubling its support of basic research over the next five years. This provides one more reminder that strong public support for research and education is essential if the U.S. is to remain a world leading economy in the 21st Century.

NSF FISCAL YEAR 1998 REQUEST: HIGHLIGHTS AND PRIORITIES

NSF's fiscal year 1998 budget request provides NSF with an overall increase of 3 percent, which would enable the agency to pursue a number of emerging opportunities that hold immense potential both from a scientific standpoint and as drivers of future economic growth and social benefit.

These focused efforts draw upon NSF's strong linkages across all science and engineering fields, as well as the agency's commitment to the integration of research and education and to working in partnership with academic institutions, private industry, and other agencies at all levels of government.

*Knowledge and Distributed Intelligence in the Age of Information*

Over the span of a few years, computers have moved from large, air-conditioned rooms to our laps and our pockets. While in 1980 NSF-supported scientists and engineers had only limited access to the highest levels of computational power, today they employ desktop systems of comparable power and have access to a collection of supercomputing facilities with capabilities they could only dream about a decade ago. Over this same period, the number of host computers on what is now the Internet has leapt from about 200 to over 10 million in 1996—a 50,000 fold increase.

This rise in both power and connectivity has changed the face of science and engineering, just as it has generated new opportunities for all Americans. The challenge today is to realize the full potential of these emerging technologies for research, for education, and for our economy and society. This era is often referred to as "the information age," but that heading does not do justice to the possibilities and opportunities emerging today. The coming age is perhaps best described as an era of "knowledge and distributed intelligence"—an era in which knowledge is available to anyone, located anywhere, at any time, and an era in which power, information, and control move away from centralized systems to the individual.

Knowledge and Distributed Intelligence (KDI) is an ambitious Foundation-wide effort designed to take information, communications, computing and networking to a new level of technological, economic, educational, and societal impact. It has the potential to revolutionize not only U.S. science and engineering, but also the way in which all Americans learn, work, and interact. It draws on past advances made in networking, supercomputing, and learning and intelligent systems. In fiscal year 1998, NSF plans a focused, multidisciplinary $58 million program of activities in support of KDI research, infrastructure development, and education that draws upon and reinforces related on-going efforts totaling approximately $355 million.

For fiscal year 1998, these investments in KDI fall into two basic categories:

—Multidisciplinary Approaches to Knowledge and Distributed Intelligence ($48 million). This NSF-wide activity will provide researchers and educators an opportunity to link diverse components of the KDI framework, so that advances in one area work to the benefit of all. This effort will span such activities as knowledge-based networking, learning and intelligent systems, and new approaches to computational tools important to many disciplines.

—Next Generation Internet ($10 million). NSF is a key participant in the President's 5-year program to move toward the Next Generation Internet. The agency's role builds on its current programs of networking, infrastructure development, and research. NSF's $10 million contribution will be devoted to participation in a multi-agency program aimed at enhancing Internet capabilities for research and education at colleges and universities.

*Life and Earth's Environment*

NSF has had a strong presence in the life, social, and environmental sciences for many years, supporting research and education activities that complement the mission-driven activities of other agencies. Increasingly, NSF is focusing on how living

organisms interact with their environment, including how humans affect their environment and vice versa. Examples include microbial diversity and bioremediation, metabolic engineering and bioprocessing, natural hazards mitigation, environmental geochemistry and biogeochemistry, human dimensions of global change, and long term ecological research sites.

The study of life in extreme environments can provide important new insights into how organisms formed, and about the range of adaptive mechanisms which allow them to function. Researchers can then examine how to mimic such mechanisms for use in situations inimical to human life such as bioremediation or bioprocessing. This overall effort was begun in fiscal year 1997 and we will continue to develop this program in fiscal year 1998, in concert with activities in other agencies (such as NASA's Origins program).

*Educating for the Future*

America's system of higher education sets a world-leading standard for excellence and inclusiveness. Yet even this outstanding system faces challenges in preparing students for dealing with the rapidly changing scientific and technological landscape expected in the 21st century. NSF is addressing these challenges by supporting innovative, systemic approaches to education and training at all levels, and especially through activities that link learning and discovery.

*Integration of Research and Education*.—This core strategy from the Foundation's strategic plan has emerged as a key touchstone for all NSF investments. Educating today's students in a discovery-rich environment will better prepare them to meet tomorrow's challenges. Likewise, history has shown that research in an education-rich environment yields an exceptionally dynamic and diverse enterprise. Fiscal year 1998 highlights include:

—The CAREER program (Faculty Early Career Development), which provides a framework for junior-level faculty to link their research activities with their teaching and mentoring responsibilities. For fiscal year 1998 the CAREER program will grow by 21 percent, to $81 million. NSF nominates selected awardees for the prestigious Presidential Early Career Awards for Scientists and Engineers in order to recognize both the outstanding character of their research and their commitment to education.

—The REU program (Research Experiences for Undergraduates) will significantly expand in fiscal year 1998, increasing by 11 percent to almost $30 million. It is one of NSF's most popular and successful programs, as it provides opportunities for several thousand undergraduate students each year to participate in ongoing or specially designated research projects at sites throughout the nation.

—Integrative Graduate Education and Research Training (IGERT). This new cross-Foundation activity, funded at $20 million, will merge features of the ongoing Research Training Group program in the biological sciences with the Graduate Research Traineeship program. This experimental effort provides a flexible alternate approach to graduate education—as was recommended in recent reports by the National Science Board and the National Academy of Sciences.

*Systemic Reform*.—NSF's systemic reform activities are well-established at the K–12 level, where they will remain a high priority. Fiscal year 1998 will see the initiation of focused systemic reform efforts at the undergraduate and graduate levels that will involve all parts of the Foundation. Experimental activities in fiscal year 1996 and fiscal year 1997—such as the Comprehensive Reform of Undergraduate Education and the Recognition Awards for the Integration of Research and Education—have set the stage for an enhanced effort, or more accurately, the age of Knowledge and Distributed Intelligence.

The Urban Systemic Initiative will fund up to 25 implementation sites in the remaining eligible cities. In 1996 our investment in USI was leveraged nearly 4-fold as other Federal agencies, states, and the private sector committed over $206 million. More than 145,000 teachers who serve 3.6 million students typically in minority districts in urban centers have received intensive training in math and science content as a result of their participation in the USI.

*Challenges to Learning*.—Just as the information age creates challenges and opportunities for the research component of science and engineering, it creates challenges and opportunities for learning. Formal education systems have changed little while the workplace and other aspects of life have been transformed and redesigned. In conjunction with the KDI effort described above, NSF will explore how individuals and groups of individuals learn, both inside and outside formal education systems, as well as how technology might be used to change the patterns of traditional education.

EPSCoR (Experimental Program to Stimulate Competitive Research) is a Foundation-wide investment pursued in cooperation with state governments that helps to broaden U.S. capabilities in science, engineering, and technology. In fiscal year 1998, NSF funding for EPSCoR totals more than $38 million. Improved linkages between EPSCoR and other NSF-supported research and education activities is expected to result in an additional $8–10 million in merit-reviewed research for EPSCoR states. This funding is intended to enable researchers and educators supported through EPSCoR to participate more fully in other Foundation-wide activities.

*Facility Investments*

In keeping with its core purpose of advancing the frontiers of science and engineering, NSF is acutely aware of the need for major research platforms that support the activities of a broad spectrum of researchers and educators. Fiscal year 1998 will see the completion of funding for the Laser Interferometer Gravitational Wave Observatory (LIGO), maintain investments in facility improvements at the South Pole, and initiate support for the Polar Cap Observatory and the first phase of the Millimeter Array.

Last month the External Review Panel for the South Pole Station completed its work and its chairman, Dr. Norm Augustine, presented a set of recommendations for NSF supported research at the South Pole. Included in the list of recommendations was that the existing South Pole Station be replaced with an optimized new station.

*Salaries and Expenses*

NSF has a well-deserved reputation as an efficiently run agency. Credit for this belongs to dedicated men and women who have worked there over the years. But the work is growing increasingly challenging as the workload increases and the resources for managing the agency remain flat. Over the past decade NSF's budget has effectively doubled, from $1.62 billion to $3.22 billion. During that time the number of participating institutions has grown by 50 percent, as has the number of proposals submitted for evaluation and review. During this same period, however, NSF career staffing levels have remained relatively flat.

Two factors contribute to the agency's success in increasing its workload with no accompanying growth in personnel. First is the successful partnership with the research community to provide merit review for proposals. Last year more than 59,000 experts provided more than 170,000 reviews of proposals submitted to NSF. The second factor is the astute use of technology to automate labor intensive processes. NSF was the first government agency chosen for a National Information Infrastructure (NII) award for extraordinary achievements and innovative uses of the information highway for its FastLane initiative.

CONCLUSION

I would like to close with just a brief comment on NSF's efforts to improve our accountability—to Congress, to the public, and to the research and education communities that are our major constituencies. This budget was prepared in accordance with our Strategic Plan. We are now working to develop performance measurements so that our next budget submission complies with the Government Performance and Results Act. We are anxious to have your views on the types of metrics that would be most helpful to Congress in setting budget priorities.

Today's budget realities require that every dollar work harder and yield the highest possible dividends. At the same time, the possibilities and opportunities emerging across the spectrum of science and engineering remind us that this is a truly remarkable era for research and education in America. The investments contained in this request will help ensure that our nation gains full benefit from these emerging opportunities—and that the future brings greater progress and prosperity to all Americans.

Mr. Chairman, thank you for this opportunity to discuss some of the highlights of our budget request. I would be pleased to respond to any questions that you or members of the committee might have.

---

PREPARED STATEMENT OF DR. RICHARD ZARE, CHAIRMAN, NATIONAL SCIENCE BOARD

Chairman Bond and members of the Subcommittee, I appreciate the opportunity to provided testimony on behalf of the appropriation for the National Science Foundation. I am Dr. Richard Zare, Chairman of the National Science Board and Professor of Chemistry at Stanford University. I would like to convey to you a bit of the

excitement and value to the nation of the research and education activities that will be supported by the National Science Foundation's fiscal year 1998 budget request. I will also mention some of the work of the Board in helping to develop this budget, and in trying to get a better understanding of the possible effects of any changes in Federal agency research programs on the broader picture of Federal support for research.

First, however, I would like to thank the Subcommittee for its strong support of the Foundation in the past. Your continuing commitment to a strong national effort in research and education is extremely important to the NSF as we carry out our various responsibilities.

The National Science Board is a 24-member body appointed by the President for six-year terms. We represent a broad cross-section of the nation's leaders in science, engineering and education, and include full-time researchers, educators, university officials and industry executives. Since the founding of the NSF in 1950, the Board has exercised two roles: that of a national policy body, and that of a governing body for the Foundation. In many respects the latter role is similar to that of a corporate board of directors, but as a Federal entity we operate within the framework of policy guidance established by the Congress and the Administration.

The Board approves NSF's policies, budget proposals, new programs, and major multimillion-dollar awards, and generally oversees the fiscal and management operations of NSF as a whole. We work very hard to make sure that all of the Foundation's policies, systems, programs and awards are of the highest quality, incorporate our best thinking, and reflect the perspectives of the communities we represent.

The budget before you has the wholehearted approval of the Board. NSF funding is a vital investment in the nation's future. The budget you're looking at today will provide the means to fund thousands of worthwhile projects across the exciting frontiers of all fields of research, and it will fund important efforts to improve the Nation's education in science, mathematics, engineering and technology.

I would especially like to call your attention to a new initiative in the area of Knowledge and Distributed Intelligence, which holds immense potential as a driver of progress and opportunity for all Americans. This is a new set of investments spanning a wide range of Foundation programs, including NSF's part of the Next Generation Internet, and going beyond that, for example, to better link research in cognition with technologies for teaching and learning. I am so excited about the possibilities arising from this "KDI" initiative that I wrote an editorial that appeared in Science magazine on February 21. With your permission, I would like to submit the editorial for the record.

The Foundation's fiscal year 1998 budget also is important for improving education in science and mathematics at all grade levels. Aside from the beauty and enjoyment that flows from better understanding our world, there are three practical reasons for that education:

First, to educate the workers and entrepreneurs who are able to understand and use research results and new technological capabilities to keep the nation at the forefront in today's global marketplace;

Second, to refresh the pool of researchers who can go about gaining new understanding of nature, who can design novel processes and products, and who are able to capitalize on discoveries made by other societies; and,

Third, to give the public as a whole, and especially its future leaders, a sufficient foundation in science, mathematics, technology and problem-solving, to make sound decisions about important national and global issues.

The Board also recently led an effort to revise the general criteria for proposal review that are used to select projects for funding in all NSF programs. The criteria have served the Foundation well, by and large, but they have not been given a comprehensive examination since the early 1980's, and we think they need at least some updating to be brought into line with the Foundation's Strategic Plan.

A task force consisting of the Board members and senior NSF staff, with input from our proposer and reviewer communities developed new general criteria. The revised criteria were adopted at our March meeting, a couple of weeks ago for use for all proposals reviewed beginning October 1. NSF is getting the word out to the national research community, so investigators can have the new criteria in mind as they work on their proposals over the summer.

We are also providing oversight to NSF as it develops methods and processes to comply with the present and forthcoming requirements of the Government Performance and Results Act, and monitoring the phase-in of other legislated government-wide requirements such as the Information Technology Management Reform Act.

In addition to our close and continuing oversight of NSF, the Board has a special role in monitoring the health of science and engineering in the U.S. and in providing advice on national policy in research and education. We have been discussing ways

to give considerable attention this year to research funding priorities within NSF, in the context of the overall picture of support by the various Federal agencies.

The world is changing more quickly than ever. Each of us sees the speed and force of those changes around us every day, in ways that we perceive as wondrous, elegant and profound—even, sometimes, a little overwhelming. I need only mention three examples:

—Developing (when it's working) a nearly instantaneous, worldwide information delivery capability that, among other things, is promising to cause a revolution in scientific publishing comparable in its impact to the Gutenberg printing press;

—The ever-increasing use of microprocessors and robotics, from what you see in the home to those used in manufacturing; and,

—Something that I have a very personal involvement in, namely, finding possible evidence of primitive life on ancient Mars.

In more down-to-earth ways, we also see, for example, that global competition in manufacturing continues to grow, challenging our economic base; and that the public's expectations about combating terrorism, violence, disease, poverty and environmental problems continue to rise. Although research alone cannot solve these problems, it is one of the most important contributors to their solution. Because the Federal government plays a critical role in supporting the fundamental research that underlies progress in these areas, it is more important than ever that a robust and well-considered level of overall Federal investment in long-term research be sustained.

Strong support for NSF is clearly a keystone of that investment. And strong support for the research performed or supported by other Federal agencies, in connection with their missions, is vital as well. The Board is very concerned about the possibilities for reduction or compression of the overall Federal investment in research. We are concerned as well for the possible fate of the various research programs in Federal agencies whose budgets—indeed, their very existence—continue to be challenged.

Mr. Chairman, we urge the Congress, when considering funding for Federal agencies that have science, engineering and education programs, to do so with explicit regard for the relationships among those programs across the government and with industrial research and development. It is important not to take actions that will undercut areas of science and engineering vital to our national interest.

The Board's efforts over the next few months will center on getting a clearer understanding of the many linkages within the Federal and national picture for research so that we will be better able to visualize or anticipate the consequences of various actions by the Administration and Congress.

Thank you, Mr. Chairman.

---

## KNOWLEDGE AND DISTRIBUTED INTELLIGENCE

(By Richard N. Zare)

The author is chairman of the National Science Board, which is the governing body of NSF, and professor of chemistry at Stanford University, Stanford, CA.

In reading the pages of Science, I have been struck by the stunning progress being made in science and engineering—new phenomena discovered, new materials synthesized, new methods developed. What I see behind many of these exciting stories is the widespread and even revolutionary use of distributed intelligence that is made possible by the "wiring" of the scientific community. It is more than a time saver or a communication enhancer; it is enabling us to think in new ways and its impact on society may be monumental.

Consider this random sampling of newspaper headlines: "Medical Schools Use Palmtop Computers to Improve Training," "Web Site Allows Users to 'Handle' Specimens From Smithsonian," "Laugh and Your Computer Will Laugh With You, Someday." There's obviously something profound going on here, and it is more than just the Internet. Computational technologies are becoming more powerful and more portable. We can access more information at greater speeds and with greater facility than was previously imaginable. We can even remotely control sophisticated experiments—on a recent visit to the National Science Foundation's (NSF's) South Pole Station, I watched as astronomers in Wisconsin controlled an infrared telescope on site. As these advances in computing and communications coalesce, we begin to see their full potential for promoting progress in science and engineering and for driving economic growth and societal gain.

The term "information age" probably does not do justice to the possibilities of this emerging era. This is an age of "knowledge and distributed intelligence," in which knowledge is available to anyone, located anywhere, at any time; and in which power, information, and control are moving from centralized systems to individuals. This era calls for a new form of leadership and vision from the academic science and engineering community. We know from countless examples that academic science and engineering have enabled our society to make the most of new technologies. We wouldn't have today's advanced computer graphics systems if mathematicians hadn't been able to solve problems related to surface geometries. We wouldn't have networks capable of handling massive amounts of data if physicists and astronomers hadn't continuously forged tools to look more deeply into subatomic structures and the cosmos. Chemists' efforts to simulate complex phenomena and predict the properties of many-electron systems have inspired massively parallel architectures for computing. And the information made available by the sequencing of the human genome has caused us to rethink how to store, manipulate, and retrieve data most effectively. It will take new insights from studies of human cognition, linguistics, neurobiology, computing, and more to develop systems that truly augment our capacity to learn and create. The best may be yet to come.

Despite brutally tight constraints on federal discretionary spending, President Clinton has stepped forward to champion a 3 percent increase (uncorrected for inflation) in NSF's 1998 budget. The president's request is only the first step in the congressional budget process ahead. Given that the priorities of Congress will almost certainly differ from those of the president, it will take an unprecedented level of input and commitment from the research community to ensure that investments in science and engineering receive the same strong bipartisan support they have enjoyed for generations. This 3 percent increase would enable NSF to launch a new set of investments spanning all its directorates. This knowledge and distributed intelligence (KDI) initiative would promote collaborations that seem long overdue, such as linking the science of learning and cognition with the development of technologies for teaching and learning. NSF's role in the proposed Next Generation Internet project is also part of the KDI package. This project would create a "smart" infrastructure for research and education at colleges and universities that would facilitate collaboration across geographic as well as intellectual distances.

It is clear that knowledge and distributed intelligence holds immense potential, both from a scientific standpoint and as a driver of progress and opportunity for all Americans. Knowledge and distributed intelligence is not just about hardware or software, but about the wherewithal to change for the better the way we learn, communicate, and do research.

## FEDERAL R&D INVESTMENT

Senator BOND. Thank you very much, Dr. Lane.

First, we recognize the comments made by Dr. Gibbons that the amount of money is a critically important item. The discretionary funds have been squeezed because we have not yet been able to come to agreement on dealing with the entitlement or mandated benefit programs which threaten to bankrupt our country.

Until we get that part of the spending under control we are going to see continued pressure on not only science but other items funded through the appropriations process, and I am hopeful that perhaps as early as this week we will see some evidence of bipartisan agreement that will move us in the path of getting entitlement spending under control.

## SCIENCE AND TECHNOLOGY BUDGET

Let me ask a broad, probably unanswerable question as to the correct level in science and research development. As you know, the NSTC put out a report that said 3 percent of gross domestic product would be a good total investment. The President's fiscal year 1998 budget shows an overall increase of some 2 percent. Unfortunately, the entire budget shows a very significant increase this year with all the cuts to come in year 2001 and 2002, and that is

not going to happen, so we have additional pressure that I can expect from the budget agreement.

What would you say is the proper Federal investment in R&D? How should it be made in relationship with the private sector investment, and what kind of tests should we be using to determine this level?

Let us start with Dr. Gibbons.

Dr. GIBBONS. Well, there is an interesting dialog going on now as you know, Senator, that talks about how much should we be putting into research, and it has been an international dialog.

The Japanese, in the face of a sluggard economy, decided to double their Federal research budget as a means of stimulating their economic growth. At the same time, we have been trimming ours well below the past historical trajectories.

The study that OSTP carried out suggested that the traditional level of presently around 2½, 2.6 percent total fraction of our national GNP, public and private, goes into research, and perhaps as we move into the new century it would be well to ramp that up to around 3, because we are so much more dependent on science and technology in that future time.

It was not a recommendation, but it raised the question of whether or not we should not be thinking about what fraction of our national wealth should we be recommitting to assure our future.

Now, what we have done in the past several years is try to assure that at least we are holding on as we all struggle to get our fiscal house in balance, and so our changes over the past 4 years have been basically to try to hold on to our purchasing power, but we have been unable to make the kinds of historic increases that have been made in the past, when we are borrowing money from the future to do it.

Now, I would suggest that our first priority, then, is to hold on to the level of support we have, and to maintain that support with a reasonably stable environment. We do not want a lot of up and down in research, because it is very difficult to plan and carry out research in that way, or to train students, but that in the long term we might want to talk very seriously about establishing some kind of a goal in which the research reinvestments in our Nation would track our economic growth over the long term.

PUBLIC INVESTMENT IN RESEARCH AND DEVELOPMENT

Senator BOND. Where public investment results in a profitable R&D result, should the Government participate in a share of the profits in order to reinvest?

Dr. GIBBONS. The Government does clearly but indirectly profit, because those investments in the private economy result in taxes on goods and services. That is probably the most assured and most efficient way of return.

At the same time, there are other measures now when public and private sectors partner and both invest in a research project that private investor receives certain advantages in that intellectual property, such as an exclusive license for a period of time.

PUBLIC INVESTMENT IN R&D

Senator BOND. Let me ask Dr. Lane to comment on that unanswerable question.

Dr. LANE. Thank you, Mr. Chairman. Maybe I would just add to the excellent response Dr. Gibbons just gave that, in particular in the area that NSF focuses on, namely research and education activities integrated in a university and college environment, I think the payoff even for the most fundamental studies can be immediate and large in terms of educational benefits, because the students that flow through those institutions go very quickly out into jobs, careers of various kinds that take advantage of technological capability that they get from a university education.

There is a place in which our investment is relatively small. I think we invest from the Federal budget about $13 billion in academic research compared to a total Federal investment of $75 billion or so.

I believe that, in deciding how much is enough and addressing the issue of how you test to determine whether you are there yet or not, one needs to try to look for those scale-dependent terms of the equation. The size of our country, the number of students that flow through our universities and colleges, for example, and the size of our industry that will require the knowledge and technology as it comes out of the companies does make a difference.

So whether it should scale directly with GDP or not I certainly do not know, but we must make a larger investment than other countries. It is not enough just to say the United States is at the leading edge in all of these important fields. It is at the leading edge right now in many fields. Our worry is about the future. But there also are the direct benefits that come out of research activity, and I point particularly to the educational benefits that flow from our universities and colleges.

Senator BOND. Thank you, Dr. Lane. Senator Mikulski.

Senator MIKULSKI. Thank you. Dr. Gibbons, I do not want to turn this hearing into a NASA hearing by proxy, but I do have a few questions related to our space program if we would, and then also to some of the roles directly related to the OSTP.

ROLE OF OSTP IN SPACE ISSUES

In your testimony you outline essentially the role of the Office of Science and Technology in space. First, I want to thank you for your role in helping increase space funding so that we did not have that draconian dip that took us to $11 billion in the out-years and I felt would have decimated it, so thank you for your very key advocacy role in that.

I want to ask two questions, one about the space station and the shuttle, and I understand they are interlocked. We are deeply concerned about the future of the space station because of the role, of the involvement with the Russians.

There are, as you know, questions raised by both ourselves as well as our counterpart in the House, Mr. Sensenbrenner, about what are we bankrolling with the Russians? Do we have what will then amount to a bailout operation, and if we do, are we then for-

aging, taking money out of the space shuttle program to pay for the inadequacies of the Russians failing to meet their commitments.

RUSSIA'S ROLE IN SPACE STATION

So now, having said that, let me go to my questions. Where are we with the Russians? Second, do you think they are going to keep their commitments? Do we have to have this kind of backup system, and then if we then are funding two programs with the Russians and then our own backup to them, what is the impact on the other NASA budget, particularly the shuttle and the safety of the shuttle, essentially the Sensenbrenner question.

Dr. GIBBONS. Senator, first of all I want to thank you for your steadfast support of NASA and the space science activities. Without that kind of support we would not have gotten where I think we have gotten today in terms of improving especially those outyear profiles.

With respect to the station, as you know, early in President Clinton's first term we decided to try to move toward a full internationalization of the work and to bring the Russians into that equation for a variety of reasons, including their extensive knowledge of space science and engineering and the capability of their being added to that international consortium to make a truly extraordinary venture.

Now, we did not anticipate all of the problems that Russia was going to have, and one never can do that, but clearly they have run into some enormous fiscal problems here in this past year or so. They have delivered fully on those things for which we were purchasing from them, purchasing at a far less cost than we could have done ourselves. Where they have fallen short are on the areas in which they promised to furnish at their own expense certain elements of the space station.

What has happened is that their lack of funds flowing into their space agency has caused them to be slipping in their schedule of a couple of important units for the space station. We want to treat this incrementally because both Prime Minister Chernomyrdin and at Helsinki a conversation between the President and President Yeltsin indicated that the Russian leadership does indeed intend to fulfill their obligations.

We would like to see that happen. We very much want to see that happen, so we are going to make our moves as required to maintain the station's integrity, but we will make them incrementally rather than some sudden decision to walk away from Russia or some other, I would call it a draconian move.

So our first move is to put a little postponement—well, not a little, about 6 months of postponement into the launch sequence of the elements of the station. Second, to provide some funding to assist in the preparation of an alternative way to maintain the station's elements in orbit as it is assembled.

This would cause perhaps a $200 million investment which Administrator Goldin feels he can provide from internal funds within NASA, the largest portion of them being the fact that he has so increased the efficiency of the shuttle program that there are underruns in this year that could provide funds without any sac-

rifice in safety with respect to providing some of this funding. It would need funding some this year and some next year.

So we are in close negotiations and discussions, of course, with the Russians on this matter. We would like to move incrementally. We believe we can do it from within the NASA budget framework, but that is still a matter to be worked out.

SPACE PROGRAMS

Senator MIKULSKI. Well, Dr. Gibbons, first of all I do not doubt the technical competency of the Russians and would rely on our scientific and administrative teams to evaluate this. I think the condition, the situation in which we find ourselves within the Congress makes the international space station coalition a bit vulnerable. I do not say it is fragile, and I do not say it is brittle, but I think that there is a very serious question about whether that commitment, the Russian commitment can be made.

We understand the Russian contractors themselves would rather be doing direct business with us than going through their own country because of the hard currency and actually cash on delivery, and there is question that if we have saved $200 million in efficiency, then No. 1, why should not the American space program, the other aspects, benefit?

You know, we have been through a hard time with buyouts and drawdowns, all of those anxiety issues that you and I have had excellent conversations on, and I am very concerned about the future of the station because every year Senator Bond and I and others and our colleagues in the House have to mount a vigorous battle to save it.

SAFETY OF SPACE PROGRAM

I think these are the kinds of things surrounding the debate that could make the viability of the votes in—I would not say danger, but I think it could move to a danger zone very quickly, so I really caution the administration that they will really need to step forward here and tell us where we are going, recognizing the delicate international situation.

But we cannot place any American at risk either through underfunding the shuttle, any American at risk in space without an evacuation vehicle, and No. 2, that for all of our benefits in trying to make NASA faster, quicker, cheaper, et cetera, that then we do not benefit from it in another way, but that the benefits go to the Russians.

Dr. GIBBONS. I firmly agree with that, Senator. I think we must assure that our safety record be maintained. You know, the President asked for a review of the shuttle safety system, and an independent and very expert group did have a look at it and they are satisfied with the process that Administrator Goldin has gone through in the shuttle operations.

I tend to think of shuttle and space station both as very much our human space flight, center of investment in human space flight, and that in the prime protection here must be that the safety be assured. In no way will we want to sacrifice any of the safety moves on the shuttle or the shuttle upgrades, which I think would

be a good way to invest some of this efficiency, but neither do we want to take away from our space science work in order to do this.

Senator MIKULSKI. That is right.

Dr. GIBBONS. So we have to be very careful which Peter we rob to pay Paul.

Senator MIKULSKI. But you see, I do not want anybody to be robbed, because we feel we had a deal and the deal is not there any more.

Dr. GIBBONS. That is right.

Senator MIKULSKI. So now we are providing, kind of like—I do not want this to be like a space savings and loan bailout here.

Dr. GIBBONS. That is why I was pleased that the President spoke specifically with Mr. Yeltsin about this issue in Helsinki.

Senator MIKULSKI. I am going to yield back to the chairman and we will come back to the National Science Foundation. As both the House and the Senate move on their appropriations and this particular subcommittee I think we really need to have clarity and specificity about where we are going, and what is this cost to us for the involvement, and what would be the cost if we did not provide this backup.

But anyway, thank you.

Dr. GIBBONS. Thank you.

Senator MIKULSKI. I think you would agree this is a big deal.

Senator BOND. Oh, this is one of many very important things we need to cover.

STRATEGIC RESEARCH

Let me move on again and ask Dr. Lane, Senator Mikulski several years ago called for the National Science Foundation to increase its investment in strategic research, and NSF came back to us identifying certain areas of strategic areas of high national priority. These included high performance computing and communications, biotechnology, global climate change, manufacturing materials, civil infrastructure systems, et cetera.

I note that the fiscal year 1998 budget request contains no discussion nor funding profiles for these strategic areas, and they are not included in the NSF's list of highlights and priorities. What happened to them? What were the outcomes of the investments in these strategic areas, and what happened to all these strategic areas?

Dr. LANE. Mr. Chairman, Senator Mikulski, NSF is continuing to support these strategic areas and, in fact, they are incorporated throughout the budget request, even though they are not highlighted or pulled together, as you have pointed out. They really have become part of our day-to-day activities. For the most part they came from the bottom up, out of the research interests and capabilities of the community in ways that most of the outstanding research disciplines and cross-discipline areas do.

In some cases they were coordinated across many agencies so as to take advantage of the fact that other agencies than NSF could contribute in one or another of these areas, and it is important to make the larger investment greater than the sum of the parts. Such areas as global change and high performance computing and communications come to mind. We have expanded some of our

areas, and I will be a little more specific here in just 1 second, in what we think are particularly timely directions.

One area that is highlighted in this budget request—it is our highest priority for new investment and research—is something we call knowledge and distributed intelligence. It has a high overlap with high performance computing and communications, but what it really does is pull in much of the human side and much of what we learned about learning, about human learning, about animal learning, machine learning, putting it all together to try to move the whole computing networking, communication, and other aspects of information technology, one whole leap forward.

It is a very exciting area for us. It has an infrastructure aspect to it. It has a large multidisciplinary research challenge associated with it, and it is very much highlighted. As I pointed out, it does overlap substantially with high performance computing and communications.

We continue to place high emphasis on our other strategic areas such as biotechnology, manufacturing, and materials. Just to give you an example of some of these areas, they are all—the amounts that we continue to track within the Foundation cutting across the budget—are all well above what they were at the time of my arrival in fiscal year 1993 and our discussions in fiscal year 1994. In particular, for 1998 our support for environmental and natural resources, including global change, goes up by almost $10 million.

HPCC, a part of knowledge and distributed intelligence, goes up by $16 million. There is over a $4-million increase in biotechnology, almost $3 million increase in materials, and over $20 million in science, math, engineering, and technology education.

So as we talked a couple of years ago, Senator, about the evolving nature of strategic areas, you made very clear to me in our early discussions and in hearings that one would expect these areas to evolve. Some will mature, some will simply become a part of the larger program, others will change their character to take advantage of new technologies, new capabilities of the scientists and engineers, and that is what NSF is about.

We still have in place at the Foundation, a high level management committee called the Senior Management Integration Group. It exists in order to bring the Assistant Directors of the Foundation and the other office heads together to deal on a regular basis with all kinds of crosscutting activities in research and education, including these areas.

Senator BOND. Dr. Lane, if you will excuse me, that may be a little more about frogs than we want to know.

Dr. LANE. Oh, I am sorry, sir.

GOAL SETTING

Senator BOND. The problem that we have, since we have a very brief acquaintance with science quite a few years ago, we need to be able to understand better what it is you are setting out to do, and the progress you are making.

When you come up with a whole new set of schemes and ideas and come forth with a brand new program, they all sound good to us, but as we proceed in the budget process we have to have a more definable area as to what your focus is going to be, how you

know whether you are making progress in that area, and so we can when challenged on the floor tell our colleagues that here are the high priority areas, and this is the progress.

I know in basic research it may be 20 years before you come to a final result, but we had better be able to find some way to explain to lay persons, who at least 99 out of the 100 are, whether we have made any progress. Are we getting there?

We are most impressed with and supportive of the scientific skills and knowledge you bring, but in the budget process we need specific things like an ability to say, well, we are getting these results. This, I think, is a problem that we face.

We need to have a common framework of projected goals that you can explain to us in simple enough terms that we can understand and share with our colleagues, and so next year when you come back you can tell us either, (*a*) we met the milestones, we met the guideposts, or (*b*) we didn't, and here is why not.

I would welcome any comments you might have. How can you tell us in concrete, definable terms what it is you are doing?

MEASURING THE IMPACT OF RESEARCH

Dr. GIBBONS. I might just add a vignette. I think as you understand, and Neal Lane has pointed out, the closer you get to the fundamental science the tougher it is to do this thing. You can look at the number of Noble Prizes, you can look at citation indexes in peer-review journals, you can look even farther back at that stream or flow of research into satisfying national needs and concerns, and all those look like pretty good numbers. The question is, how can one put this in a tighter framework?

There are some areas, for instance in the development of supercomputers, in which goals have been set. The teraflop was a goal that was established. Just last year it was met and exceeded ahead of schedule, if anything, so there are those particular areas where one can identify and put down a marker and then measure against it in a much clearer way.

I think there are some interesting markers coming up, for instance, that have not yet been defined, but one marker is can we continue this extraordinary improvement in semiconductors and microelectronics called Moore's Law, which says roughly every 3 years you have the cost of the chips, and the question is, how long can we continue that before we run into some real limits of science, and, therefore, what are the areas of science most needing advancement in order to be able to continue on that curve?

GPRA

Senator BOND. Dr. Lane, did you want to comment on that?

Dr. LANE. Yes, Mr. Chairman. Let me add that we really think this is how we should be thinking about the results act for the investments that are made in science and engineering by the National Science Foundation. We need to be able to identify clearly stated objectives that we can agree on which will provide a basis to evaluate how well we are doing, and we, in fact, are working on that very hard. It is not so easy to do.

Perhaps it is not easy for anyone to do, but it is particularly challenging in the area of fundamental research, where quantitative

measures are not likely to be very helpful, and where even qualitative descriptions might only provide guidance over some period of time.

So for example in our budget, we report examples of major advances in one or another field of science, any of which overlap. Biotechnology for example, where plant communication and response to attack is an interesting area. Our progress on unraveling the genome of Arabidopsis, a little mustard plant, makes progress here.

There is much that we could have described about materials and manufacturing and many other areas. That is our challenge, to try to identify a descriptor that will satisfy your needs and our needs to measure our progress.

Senator BOND. Clearly I do not have the ability—I speak of myself—to establish clearly what the milestones and guideposts are, but we need to have those from you in ascertainable terms because I assume that you do not just throw money out in the hope that 20 years later something good is going to come out of it. There has got to be some kind of measure, and that has to be explainable.

That may be the toughest thing explaining it to people like me, but to continue to support it we have got to have that kind of promise, performance, and report on the progress.

Senator Mikulski.

Senator MIKULSKI. Thank you, Mr. Chairman. You have really covered my questions on both the strategic initiatives and the so-called Government Performance and Results Act, known as results act, so I will not go over that ground.

I just want to affirm that my position is that Government is not involved in commercial research, and so I am going to be very clear when we talk about strategic research that Government really helps by both directing and then leveraging in other areas the precompetitive research, the basic knowledge, but that we are organized around these strategic goals which we know this century demands.

YEAR 2000 COMPUTER DILEMMA

However, I do believe that both the Office of Science and Technology and NSF could play a role in solving a juggernaut problem that is presenting itself to us, and that is, what happens to all the computers in the world when we hit 2000, the so-called year 2000?

I wonder, as part of the science and technology role, and then really where so much information technology is developed through the NSF and I believe NIST have really been the two agencies most responsive, what is the White House role and the NSF role in working to come up with a solution that has enormous ramifications for not only the public sector but the private sector, or should we say do it the American way and offer a $1 billion, or a prize to anybody in America that comes up with it?

Dr. GIBBONS. That is the best idea I have heard in a long time on that issue, Senator, the one you just mentioned. I would like to respond to that, but may I do just a postscript on this assessing outcomes of research, because I think it is really important.

There are two things I should have mentioned to you. First is that the National Science and Technology Council, with OSTP and Neal Lane's direct involvement, completed a study last year called

Assessing Fundamental Science. We are now using that report with the agencies in their preparation for the GPRA, so we hope we are sharing wisdom across the agencies.

The second point I should have mentioned is that at the end of each of the chapters in our biannual report on science and technology is a discussion of the accomplishments over the previous 2 years, so it gives at least a benchmark for that progress.

Now, with respect to the year 2000 issue, which is what happens when you get the double zeros and the computers do not know what to do about it, there is going to be no magic bullet, but it was a uniformly missed concern in programmers throughout the years in thousands of different programs about how to handle the double zero. Each program has to be reviewed technically, so across Government as well as the private sector there is a sharing of experience.

ROLE WHITE HOUSE HAS IN SOLVING YEAR 2000 ISSUE

Senator MIKULSKI. Are you all taking the lead? In other words, who is taking the lead?

Dr. GIBBONS. Well, the lead within the White House I believe is both the National Economic Council and OMB because it is more a business and programming issue than it is a science issue.

Honestly, it is not a science issue. It is an issue of having not thought very well in advance about these programs as we get to the millennium.

Senator MIKULSKI. Where is the solution going to come from?

Dr. GIBBONS. The solution is going to come—Neal may have a special one for you, but I would say the solution is going to come from a number of innovative approaches to fixing these programs and records so that there will be minimum problems as we cross the millennium. It is happening all over the world. It is not just a U.S. issue.

Dr. LANE. Excuse me. May I add a comment, Senator?

Senator MIKULSKI. Yes.

YEAR 2000 ISSUES

Dr. LANE. There are millions of lines of computer code all around in businesses and governments, and somewhere buried in there is a statement that deals with this issue of how to handle the flipover, and it has not been dealt with in much of that code. There really is no magic way to get into all of that. We are focusing with OMB in making sure that our agency does not have any problems, and I am assured by my Chief Information Officer that we are on schedule with that, but it really is not a research problem. It is not an area where the National Science Foundation or other Federal agencies can somehow support research that will take care of it.

All of us who deal with computers are just going to have to find these problems before the time happens.

Senator MIKULSKI. I find these answers dismaying, gentlemen. Everywhere I go in my own State and even outside, talking with people, this is one of the No. 1 issues facing business, Government, academic centers, et cetera, what is going to happen with this so-called flipover, as you said, that could throw us into chaos, and there is enormous concern from the private sector about this.

I can go on where the concerns are, and just as there has been a missing of the problem, there seems to be a missing of the solution, and I am somewhat surprised—I do not know if my colleague shares it—that there is not a one-stop shop within our own Government that wants to take the leadership in helping deal with this issue, and it might not be research, but I do not know, then, what it is.

To say it is a business problem, it has horrendous implications for national defense, our encryption, our banking—it goes on. I could name so many different sectors, and frankly, I think this is where the United States should be playing a role in global leadership and global cooperation.

I know it is a global problem because computers are global, but if we are going to have all these, let us wire schools, and let us do Kid Net, College Net and so on, unless we deal with the year 2000 issue we are truly going to be in a global meltdown.

Dr. GIBBONS. Senator, I agree with your statement of the importance and the pervasiveness of this problem. The frustration is, as Dr. Lane points out, it is buried in some, however, mundane computer line codes down in all of these various programs. Each agency—for instance, the Department of Defense, Social Security——

Senator MIKULSKI. Are you telling me each agency is going to have to solve its own problem, that each business is going to have to solve its own problem?

Dr. GIBBONS. They are going to have to solve their own problems, but hopefully we will be able to share, and this is where I would like to pick up on your comment, share on each other's experience, and I promise you that when I get back to my office this afternoon I will look into the extent to which appropriate sharing of innovative ideas or progress is being made.

I have not focused on this recently, but you have gotten my attention for sure.

YEAR 2000 FLIPOVER

Dr. LANE. I am aware that OMB has thought through the phases of activity, advising all of the agencies to go through this process, and they are scheduled for that, and we are on that schedule. I am sorry that I do not have those things with me today, but OMB is at least playing a very important role here.

Senator MIKULSKI. What role do you play?

Dr. LANE. Our role is to ensure that we follow those guidelines and make our whole system work.

Senator MIKULSKI. Are you helping to write the guidelines? In your testimony, Dr. Lane, you talk about how you are one of the premier agencies in funding information technology knowledge and sharing your networking and micro this and parallel that, and I am not minimizing this. I do not want this to be a cranky hearing, but if you aren't, then what the agency is, are you in the room? Are you helping them solve the problems? Is there a sense of urgency? Is there a collaboration here, or is it OMB?

I know—you know, I really do not feel comfortable with OMB being the lead agency. They are management and budget of this, and given the way every single agency in the Federal Government that even buys information technology squanders its resources, we

have no leadership advising the agency on what they should even buy now.

NEED FOR BETTER COMMUNICATION/COORDINATION

We could go to IRS, we could go through every—the veterans and what they buy, et cetera. So do we need a White House Chief Information Officer that does all that and tells these agencies what to do? That is another topic.

But now, there is one issue that the world knows that it will face, that there will come a year 2000, and all of the computers in the world are going to have a problem, every single computer in the world is going to have a problem, and all dependent on it are going to have a problem. Well, maybe not every single—I mean, you are shaking your head.

You know, I am a generalist here. I am on five Appropriations Committees. I am on two other committees. We work on FDA reform. We really rely on you.

But I am really relying on the United States of America to have (1) a sense of urgency, (2) a one-stop shop that we are coordinating this, that this is not a management issue, it is a serious technology issue, and the guidance that we can offer the world and that we can gain from other thinkers in the world I think is absolutely crucial, and obviously the sense of urgency I feel from the private sector and other local and State government agencies is not what is felt.

Do you share this view or not?

Senator BOND. Senator Mikulski, when we talk about computer technology my lack of knowledge is infinite, and as one who still relies on a Rolodex——

Senator MIKULSKI. And under Moore's law, that will multiply manyfold.

Senator BOND. Well, I carry these things around, so really my own personal life is not going to be much more difficult if I get to 2000, because I will just get a brandnew card with the knowledge on it, but from my very limited understanding——

Senator MIKULSKI. But it is going to say 1900.

Senator BOND. Not mine. Not mine. [Laughter.]

YEAR 2000 FLIPOVER ISSUES

Let me ask you two gentlemen to collaborate and do one thing for the ranking member and me. It seemed to me—this is a humongous problem that is going to afflict everybody who uses computers, generations younger than me and those who are into the computer age.

It would seem to me that this is a problem in applied technology and programming that is not rocket science but it is very complicated real time technological unscrambling of something that has been scrambled.

There may be some high-level scientific input that is appropriate, but it seems to me that there may be a technology body or a technology focus that would be the appropriate one to coordinate the efforts, that it may be a different level of science, and rather than continuing it, if you would all just send us a very brief memo, two

pages, who is going to do it and what you see as the resources and needs on it. We would like to have something.

[The information follows:]

YEAR 2000 COMPUTER CONCERNS

There appears to be no generic solution to the Year 2000 problem. The reason is to be found in the economics of and practices used in the early days of widespread computer use.

In order to save on what was then very expensive memory (which in the mid sixties cost about $1/byte, compared to the present cost of roughly $0.000005/byte, which equals $5/megabyte), many business and other systems coded the year as two bytes or in some cases at two digits in one byte. This served immediate purposes well and at an acceptable cost. The standard procedure for determining which year is earlier consists of subtracting the old year from the new and testing to see if the result is positive. Once again, to speed up the operation on relatively slow computers or to save memory, many codes did this "in line", i. e. the instructions were imbedded in the instruction stream to be used whenever needed. Such calculations could occur dozens of times in a business system.

An additional problem arises because of how many "legacy systems" were programmed. In the 1960's and 1970's many applications were coded in assembly language, specific to a given processor type. The primary reason for this was to obtain maximum performance on slow systems. Difficulties in addressing problems arise because this kind of code is difficult to interpret or read. Further, in many cases, the processors in question no longer exist, although the code is still running by emulating old processors on new ones. Moreover, many organizations did not put into place adequate means for maintaining software.

This complexity and diversity is what stands in the way of a broadly applicable procedure for resolving the Year 2000 problem. The result is that in legacy systems many of the problem sections associated with the date comparison must be found by hand in a laborious fashion and the results tested as comprehensively as possible. Such actions will, in the case of more modern software, especially that produced by third parties and widely used on standard architectures, be easier to fix.

GENOME STUDIES

Senator BOND. But let me move from these wonderful broad generalities down to the specific. I mentioned the corn genome project. We have had tremendous growth in technology in agriculture, more food, healthier food, less expensive, more nutritious, and we are going to continue to need to do that with more people on less land.

One hundred years ago, 60 percent of our population was engaged in providing food. Now, maybe 2 to 3 percent is. An acre that produced food for one person in 1960 now produces food for two and one-half today, and biotechnology, plant genetics and specifically, I believe, carrying the work from the mustard plant on to the corn plant is going to be one of the significant steps that we take that will benefit all of agriculture.

We know that Japan is deeply involved in mapping the rice genome, and rice may be appropriate for them, but when they get the mapping done on the rice genome they are going to be in a very significant competitive position to expand that into other grains, and it seems to me that No. 1, I know there are a number of groups in the private sector, there are a number of disparate efforts underway on this project.

I would like to have your honest opinion, and if you think I am wrong, please tell me. I promise no retaliation. I just want to know, is this from a scientific standpoint as significant an effort as I believe it is? If so, what role should the NSF and Government science play in this?

If it is important, what is the best way to organize it and manage it so that all of the different efforts are brought together in a consistent and productive and complementary fashion?

Let me start with Dr. Gibbons and go to Dr. Lane.

Dr. GIBBONS. Mr. Chairman, I applaud your interest in this. The whole food genome is now, in the current decade, ripe for major advances in understanding, and I think we have a lot of lessons to learn from the human genome project, which is working very well. It is achieving its goals. It is reducing dramatically the cost of sequencing and the like, so other things become less costly than they would have been.

At the same time, in approaching corn, which presently is mostly the subject of research at USDA—I think they are doing the majority of the work at this point—corn has to be taken in the context of the other grasses, because you might learn faster and cheaper about corn by working on some of the grass. We are not quite sure.

So I would suggest that we push ahead on this notion of the food genome program, which would inherently be best done as a multiagency activity. Presumably USDA leads, but we know that NSF, USDA, Department of Energy, all are, and obviously the health agencies, are all pretty well working together now, and if we could focus this and take the best of the capabilities of each of these agencies in a food genome program, that would be the best way to get there.

I do not think we can do it, as I think you intimate, with existing funds. It will probably take some additional commitment of funding to do this.

Senator BOND. Dr. Lane.

Dr. LANE. Mr. Chairman, I also commend your interest in this area. Undoubtedly, understanding the genomes of plants is going to continue to be very important for agriculture.

ARABIDOPSIS GENOME PROJECT

Let me say a word about why we have focused on the mustard plant, arabidopsis. There are very good reasons for it. First of all, how are we doing it? It is an international project. There is an international steering committee that we are involved with in countries in the European Union, United Kingdom, France, and in Asia, Japan, working together on this.

Why did we choose this mustard plant? Well, one of the unique things about this plant is that its genome is the smallest, as far as we know, of any flowering plant. So, if we can sequence the genes in this plant we can gain the tools and the understanding that will then enable us to do things with other plants, to transfer properties, and in time to realize the benefits over a larger class of important food plants and other plants that benefit people.

How much simpler? Well, the genome size is 100 million base pairs. For corn and for humans the number is approximately 3 billion base pairs, so corn, while I think corn is terrific, and it does not look a lot like a human, on the other hand it has got this extraordinarily complex genome.

So our approach is to understand a plant that replicates itself very fast and that flowers rapidly. It is not of any commercial value, so an international partnership is very easy to form. Nobody

is worried about intellectual property on the mustard plant, and the partnership has worked extremely well.

The tools we get from that plant are going to help us in many, many ways in trying to understand the genomes of corn and wheat and barley and rice, and I agree with Dr. Gibbons that the way to get at some of these others is through many agencies' involvement and perhaps international activities, where we can forge those partnerships.

We think that our investment is the right way for NSF now. It is an active partnership that ought to deliver the full genome for arabidopsis around the year 2002. We are requesting about $3 million in 1998 to continue this work. It is being carried out by a couple of consortia, one of which involves Washington University in St. Louis, and one organization doing this work is the Institute for Genomic Research in Maryland.

Senator BOND. Those are very well chosen examples. [Laughter.]

Nice target on the examples. [Laughter.]

Dr. LANE. It really turns out that there are two consortia and two institutions. One of the consortia involves Missouri, and one of the institutions is in Maryland, so I just think it shows there is wisdom in those States at least. [Laughter.]

Senator BOND. I am always struck by your farsightedness and your intuitive sense of what is important. [Laughter.]

FUNDING FOR AGRICULTURAL RESEARCH

As we speak, the Under Secretary for Research Education is testifying before the Agricultural Appropriations Committee, and I intend to submit a question over there asking whether funding should be included in the fund for rural America instead of excluding it, but there are a couple of points I guess I ought to make.

We talked abut the USDA, and I have supported much USDA research, but applied practical research on things like dealing with soybean nematodes, some practical applications, and the Food & Agricultural Policy Research Institute does economic research. The fescue problems in feeding cattle are really the strong point of research in the USDA.

But we know that there is currently research going on in this area, and what I am concerned about is that there is significant resources being put in piecemeal. There are uncoordinated, underfunded, proprietary limits. There is some redundancy. It is unfocused.

Now, I recognize and I strongly support that private funding should be utilized extensively to the greatest extent possible, but there ought to be some way through your agency or agencies that progress, or the paths could be coordinated so that at least someone would have an idea of where progress is being made.

POTENTIAL CORN GENOME STUDY

The reason that we focus on corn, and I recognize that it is a second step, or something like it is a second step after the mustard plant, is that it is our highest value crop. It is our most exported crop. Scientists say that of the cereal crops it makes the most scientific sense to begin with corn. That is what the experts have told

us, that you ought to begin with corn because you can move from there.

They have told me that doing corn would yield the most information on other cereals, and the industry itself is coming forward with a business plan and they are willing to bring in resources and organize major funding for it, but if it is more appropriate to begin a 5-year plan to map the genomes of other cereals, if that makes more scientific sense, please let us know.

REQUEST FOR INTERAGENCY MEETING

I would ask—maybe Dr. Gibbons you would be the appropriate one—if you and your staff could arrange an interagency meeting with the appropriate agencies and departments, including NSF and Energy and Agriculture and NIH, to lay out not only for us but for all those who are interested in what an appropriate strategy would be.

Scientifically, how can we make the most progress where there will be benefits to agriculture and to all of us who enjoy the benefits of agriculture—i.e., we eat—in this area, the mapping of the genome, whether it is corn or whether it is all cereals, and give us a game plan that we can understand and that the private sector can relate to, provide input to, and provide assistance and research.

Is this something that would be appropriate for you or for the NSF?

Dr. GIBBONS. Absolutely. I would be pleased to put together an interagency working group on this, Senator, and get as early as possible feedback to you on an interim basis of what we would suggest as the most appropriate and efficient way of going about this as a Federal family, also keeping in mind that we should look for partnerships with the private sector and perhaps the States on this as well.

Senator BOND. Well, clearly there will be just for one example the University of Missouri has a very well recognized program, Food for the 21st century, which has brought together tremendous scientists with plant biotechnology skills and the universities and the State government has supported it very strongly.

I think that there are resources out there. You are the ones to take the lead in identifying how to use those resources.

Dr. Lane, a comment on that?

Dr. LANE. Mr. Chairman, I do not know what the right thing to do here is. I think the outcome is very important. It may well be that we need to understand the series of grasses better. After we go from the mustard plant, then it might be that an intermediate step before going to a genome as complicated as corn is the proper strategy, but I am not sure.

I think we certainly look forward to participating with other agencies in this discussion and getting the best advice of the scientists in the country, and then there is excellent fundamental research to be done here, and NSF would expect to be part of it.

FUTURE OF GENOME STUDIES

Senator BOND. Could you give me an idea—it is going to be done by somebody somewhere. A cereal is going to be—the genome is

going to be mapped. What are the benefits? What will happen? What do you see as the likely area of benefits when the job is done for something more complicated than the mustard plant, whether it be the rice genome in Japan, or a cereal genome here? What is likely to come from it?

Dr. GIBBONS. Well, it is very hazardous to make guesses on areas like this, but I am getting old enough to not be worried that much about it, so let me make a few guesses.

Senator BOND. Good. Good. Nobody will hold it against you if you miss this one.

Dr. GIBBONS. Corn probably has at least one-half as many genes in it as people do. It is a very complicated plant, but those genes do various things. They turn on and off things. They make various proteins that cause various things to happen, and if we could learn the structure of corn we can figure out from other research how we might be able to insert, for instance, the capability of corn—and these are going to be wild guesses, Senator, but sometimes it helps. How to insert a gene that would enable the corn to be even better in terms of its protein production. You know, corn is typically lysine short and maybe you could figure out how to get lysine in the corn.

The second thing is how to maybe make corn perennial. There are primitive corn plants in Mexico that are perennial, and that would change very much the situation with respect to corn growing. It is a long shot, but that is a question.

Another question could be corn that would attract microbes to its roots and enable it to fix nitrogen, like our legumes do.

Senator BOND. Clover and legumes.

Dr. GIBBONS. These are wild stabs, but those are the sort of things one would look for after we come to understand the structure of the corn genes, their functions, and how one might be able to manipulate by bringing in certain special functions into the corn genome.

Senator BOND. One of the items suggested to me was by making corn more digestible you would make it a more efficient feed for cattle and eliminate the environmental problems which always draw laughs on the floor of the Senate when discussed as being a significant environmental problem as a result of the indigestibility of corn that is fed to many of the herds.

Dr. Lane, any thoughts that you would like to offer on the higher noble uses of the corn genome?

Dr. LANE. Well, Mr. Chairman, I think the examples that Dr. Gibbons gave are excellent ones, and we will want to check back down the road to see how well he did.

Dr. GIBBONS. Uh-oh.

Dr. LANE. I think an obvious thing that we are interested in, in the cases of all valuable and useful plants, is disease-resistance, and we want to be able to make these plants disease-resistant in a way that has the least damaging environmental impact to the plant itself, other plants around, people, animals and so on, so it is a clear area in which I think researchers will be looking.

I like chocolate a lot. I do not know if there is any way to change that substance.

Senator BOND. If you could make it less fattening, I am with you on that one. We will have a special set-aside if you find a solution to that one. [Laughter.]

I do not want to get into your business, but if you give me a promising area there we will steal money from some place to make that happen, to make that nonnutritive but delectable.

EXAMINATION OF GOAL SETTINGS

Let me just ask, let me go back to my questions about what we are doing, and how we are going to get there. There are two things you have talked about, knowledge and distributed intelligence, and life and Earth's environment. Would you try to explain to me briefly what you are doing in each of those initiatives, why you chose them, and precisely what mile markers, guideposts you will set out for us to tell us whether you have been successful in the progress that you propose or expect in these two areas?

Dr. LANE. Mr. Chairman, if I could just make a comment, I would like my colleague, Dr. Joe Bordogna, who is Deputy Director of the Foundation, to add his comments. He chairs the senior staff group that, in fact, developed the programs in these interdisciplinary areas, and I would like to get his comment on those.

There are two things about them. First, the research that falls within the interdisciplinary areas really does arise out of the community. It comes from what scientists are interested in and what they can do, and the advances that they have made in recent years.

What they have begun to see is a commonality of interests across all fields of science in information, science and technology, and we are going to build on that because we see real benefits not only for the science itself but benefits of a more practical nature. Education clearly relates to these advanced technologies that are coming out of KDI.

The second thing I would say in terms of the objectives and matrices that we will use is, we are working on those. Those will be a part for the long range of our strategic plan that is due to OMB this fall. The particular objectives for the fiscal year 1999 will be a part of the submission of the 1999 budget, as required by the act, so it is a work in progress, and we will give you as much information on how that is going as we can.

Senator BOND. Do not bury me with information. Just give me something that is clearly understandable, because if I have to defend it on the floor I am not going to be able to give a ½-hour speech. I need to have just a simplified explanation of what it is all about, why it is important, and how we know we are getting there.

Dr. LANE. Let me ask Dr. Bordogna to start.

Senator BOND. That is very simple, and you have 90 seconds on each one. [Laughter.]

KNOWLEDGE AND DISTRIBUTED INTELLIGENCE

Mr. BORDOGNA. We are not wedded to this term, knowledge and distributed intelligence. It is the moniker at the moment, because this is something at the edge of the knowledge base, but there are two pieces to it.

Distributed intelligence is a term we use because we can now, more and more of us individually, access knowledge from any place, any time, anywhere. That is a strength the United States has. We would like to enable more people to be able to access it, and when they access this information it is more facile to get it.

It is very complicated to interface with a machine now, or a keyboard. Wiring the school is good, but once you have the interface with the students, how can they access this information and learn from it better?

The knowledge part means, can we create a whole new knowledge base for doing things differently? For example, in the strategic area of manufacturing, we have done a lot of things there the last several years to move that strategic area ahead. Five of the last six engineering research centers in the last couple of years deal with manufacturing.

One of the key issues there is using information to make manufacturing less expensive to do, be more competitive in world markets. Can we, for example, take this Moore's Law that was talked about—yes, we can get more in a small space. That creates a new problem of packaging things better, and that needs a knowledge base for doing that.

Manufacturing is done in many places from anywhere at any time, and having a broadbased infrastructure that is intelligent as well as having the Internet can be helpful for that.

Another piece of this is what we call learning and intelligence systems. The idea there simply is, can we augment a capacity for each of us, at any level in life, not just professionals but everybody, to learn and create more efficiently? Can we work smarter in this? This is a key basis of distributed intelligence, increasing the knowledge base of everyone to do things better, including craftsman, carpenters, plumbers, and well as professional people.

On the high end, we will do our research differently and more efficiently. We will share resources around the country.

One of the problems we have in equipment now is that the equipment need to push back the frontiers of knowledge is increasingly expensive. You cannot have it repeated in many universities. We have to share this infrastructure equipment. Having a knowledge and distributed intelligence infrastructure will enable us and enable our clients, in a sense, the people we support, to share instrumentation, to be able to do their research better.

A nice neat aspect of this is with regard to the EPSCoR effort. Many States and universities cannot afford the equipment needed, but with this kind of system they are going to be able to access it everywhere.

We have a cute term called collaboratories, collaborative laboratories, collaborative meaning working together.

All of this is coming together. We are trying to integrate all of that to lift the knowledge base to a level where people can work smarter, and a greater range of people can work smarter. We can also change, perhaps, the paradigm of education.

One bottom line here is that life and society as we have known it so far is essentially entity-based, companies, schools, and so on. All of this is enabling this whole effort to be human-center based, where the individual is empowered better.

So knowledge and distributed intelligence, in summary, is the ability to get knowledge anywhere, any place, at any time. The knowledge part lifts the knowledge level of everyone, and lets us work smarter. It provides a certain competitive advantage against the rest of the world, and it also enables progress in all the strategic areas that were listed in the last several years. It is going to help us move ahead.

SUCCESS INDICATORS

Senator BOND. I agree that is noble. It is very important. Next year at this time how will we know if you have made progress in that area? How will we make sure that you have not just blown the money?

Dr. BORDOGNA. Well, I will give you some examples. That is the best way to do it. Let us take manufacturing. Some strategic areas have been brought up. Let me relate it to that.

Right now, the interagency effort in manufacturing, which is still extant, is into a new way of looking at manufacturing, and that is, now that we have distributed intelligence, now that we have a high-speed network, now that we can enable even small manufacturers to get access to the best ways of doing things, we can measure next year, whether new engineering research centers arise, for example, because of this effort.

Five of the latest engineering research centers arose because of the strategic effort in manufacturing. We did not spend extra money. We reoriented the investment in engineering research programs to these new issues.

Another example would be if we were able to take the wiring of the schools, for example, and we could see that students are learning better, that their scores are increasing, for example. These are measures of how to ensure that this infrastructure base is really moving us ahead.

LIFE AND EARTH'S ENVIRONMENT

Senator BOND. All right. I would be interested to see, and I would ask you to submit for the record what you think these markers would be, and then suggest that next year we get a report on which of the markers have been achieved, or whatever markers there may be.

Life and Earth's environment, just a quick synopsis of that. Not that it is not rather broad.

Dr. BORDOGNA. We are trying to do two things here. One of the things that has happened over the past few years is that a lot of new knowledge has been created on how life is formed, where do we come from, and many, many venues of research. That is an important issue. We are at the cusp of learning a lot very, very fast.

The environment is an issue. The environment is a concern because we have to live in it, and so on, so life in the environment on the Earth is an important issue for NSF, and we are trying to couple these two things.

From an environmental point of view, we have really two issues there. One is to ensure that the environment is sustainable as we know it, that we can somehow get into a system of producing wealth while not impacting the environment obviously. We also

want to be able make wealth out of that activity, however, so one of the issues we have a very serious interest in at NSF is how to avoid harm to the environment in the first place.

It is a very technologically based kind of thing. Can we apply technologies to the processes that we use in life to create wealth and lift our standard of living, while at the same time creating businesses out of that so that it can be wealth created out of the idea of working with the environment.

The bottom line here is that we are trying to connect the issues of where life has come from, understanding that well, with all of the ramifications that means for our progress and health and so on, with sustaining the environment so that we have a livable society.

[The information follows:]

NSF INITIATIVES IN KNOWLEDGE AND DISTRIBUTED INTELLIGENCE (KDI) AND LIFE AND EARTH'S ENVIRONMENT (LEE)

NSF's initiative in Knowledge and Distributed Intelligence (KDI) addresses the question of "what's next for the computer-communications revolution?" We have already seen advanced information technologies transform how research is conducted. We have glimpsed how they can dramatically improve teaching and learning in schools and classrooms at all levels of education. We have seen the Internet grow into a veritable global village. We have even seen a supercomputer crowned champion of chess.

In fiscal year 1998, NSF plans to initiate its targeted KDI program. We will issue focused program solicitations in specific areas of research, based on workshops currently being held. In the first year of this program, NSF will support scientists and engineers, selected through the merit review process, to begin working in focused, multidisciplinary areas, on problems such as those described below. Through this first KDI competition, we will gain a better sense of the range and type of questions that researchers consider most pressing, while enabling researchers to begin working on those problems.

After the first year of KDI, we should be able to show that NSF has indeed funded important research projects in this area. We should be able to describe, both generally and in detail, what those projects are, what they are setting out to accomplish, and what the priorities for research within KDI are. Through review of the merit review process, we should be able to show that the projects selected for funding are competitive and of very high quality. We will also be able to demonstrate the outputs of NSF's processes—numbers of proposals received, awards made and people involved, and lessons learned from the merit review process for the initial KDI competition. We will, however, not yet be able to identify what scientific or technical results have been achieved or even much about the training and educational results.

In subsequent years, NSF should be able to show the accumulated research results from these awards, and link these to NSF's outcome goals. The initial awards made in fiscal year 1998 will be generating a stream of outputs and outcomes. Indeed, we are currently developing a new Web-based project reporting system that should allow us to collect much better information on direct outputs from awards. Even then, however, many of the truly important "outcomes" of KDI—the knowledge gained, the training of scientists and engineers, and the education of students—may still be years off.

The challenge for KDI is to develop new ways to manage and make productive use of the flood of information released by these emerging technologies. To address this challenge, we need first to create new ways of collecting, transforming, representing, sharing and using information. We need to develop ways of modeling complex systems, managing vast amounts of data, and merging data and models. We need to effectively harness these new technologies to improve education. In short, we need to mobilize them for the benefit of society.

NSF's KDI initiative will lay the scientific and technical base for these next steps. It will address a wide range of highly complex issues such as:

—New technologies such as satellite and airborne sensors, and automated or remotely-operated sampling stations are generating an explosion of geospacial information. Integration of this data is necessary to proceed with multidisciplinary research on problems such as environmental phenomena (e.g. the Ozone Hole), and using real-time data to understand and predict storms.

—Taxonomists are building a Web-linked network to share databases, and to analyze and identify specimens. A major challenge they face is managing and coordinating the amount and complexity of information. However, the availability of quick and accurate taxonomic identification would be valuable for uses ranging from agricultural extension agents encountering a new weed, to customs officials interdicting imports of new biological materials, to geologists searching marine cores for fossils indicative of petroleum deposits.

—Systems as dissimilar as an economic market, the brain, and large computer networks have this in common: information is widely distributed throughout the system, and no identifiable entity coordinates the information or makes decisions. Yet, this information is somehow coordinated and focused into sensible outcomes. Researchers in disciplines ranging from economics to neuroscience to mathematics and computer science currently study these types of systems separately. Collaboration may reveal similarities in how these systems function, and hence how to improve system performance.

—Most simulations of complex phenomena generate vast volumes of numeric data. Whether these simulations address natural processes—the collapse of a star, global weather patterns, groundwater flow, or the function of the nervous system—or engineering or social processes—the management of electrical power networks, fluid flow around an airplane, or the behavior of financial markets—the phenomena are too complicated to be understood either by simple observation or by reduction to isolated components. The only hope of extracting useful information from those volumes of data depends on visualization techniques that are beyond current capabilities.

NSF's initiative in Life and Earth's Environment (LEE) seeks to increase understanding of the mutual interdependence among Earth's lifeforms and the environments that affect and sustain them. LEE builds on the exciting new discoveries regarding how lifeforms originate and flourish in a diverse range of environments. These discoveries have challenged traditional conceptions of the origins and conditions for life. LEE also focuses on the interactions between lifeforms and the environments they inhabit, ranging from desolate parts of the world where few lifeforms survive to urban complexes dominated by human activity to tropical forests where flora and fauna abound.

NSF initiated its targeted LEE program in fiscal year 1997 by enhancing existing programs in areas such as global change, natural hazard reduction, and the NSF–EPA Environmental Partnership. Fiscal year 1997 also saw the conduct of a special competition focusing on Life in Extreme Environments (LExEn). During fiscal year 1998, NSF plans to continue these efforts and to expand its coordination activities. A set of workshops and studies will be held to stimulate identification of new lines of inquiry, and special competitions focused on urban environments will be held. NSF also will encourage the development of new educational approaches that will initially focus on life and Earth's environment but that ultimately will be useful in improving science and engineering knowledge for people at all levels across a broad range of topics.

Looking beyond fiscal year 1998, NSF will encourage increased interdisciplinary work to address a set of integrating themes associated with Life and Earth's Environment. Through the merit review process, NSF will identify those projects for which potential contributions in expanding and disseminating knowledge are especially great. As with KDI, we will be ale to demonstrate the output of NSF's merit review process, but it will take a decade or longer for the ultimate outputs and outcomes of NSF's investments to become clear. The new Web-based project reporting system that NSF will be implementing during fiscal year 1998 will provide improved means for identifying both short- and longer-term products and contributions of LEE research and educational projects.

An expanded emphasis on support for research and education dealing with life and Earth's environment will enable us to build on the exciting new perspectives provided by recent discoveries; enhanced capabilities for making observations, conducting analyses, and making predictions; and growing awareness among the scientific communities and the general public regarding the potential value of increased knowledge about life and Earth's environment.

Increased understanding about life processes and the interactions among lifeforms and other facets of their environments gained through LEE could address issues which affect all Americans. For instance, citizens would be better able to assess how changing environmental conditions may affect their health and well-being. Industrial firms could have a sounder basis for developing and implementing productions techniques that will stimulate economic growth while improving environmental quality. Local governments would be better prepared to deal with hazards associ-

ated with adverse environmental conditions, while state and federal agency officials would be able to evaluate how to deal with environmental change.

Examples of LEE research activities follow:

—New research shows that millions of years ago, fish in the Antarctic and in the Arctic independently evolved nearly identical antifreeze glycoproteins that kept them from freezing in frigid oceans, which in turn allowed them to exploit new ecological niches. For the first time the genetic process by which a novel protein evolved to enable this adaptation has been traced. This knowledge will provide the basis to understand how life originated and evolved on Earth as well as how life has managed to thrive in unexpected environments.

—One of the biggest challenges facing scientists and engineers involved in environmental research is understanding the highly interrelated physical, chemical and biological feedback loops commonly present in the Earth's natural systems. NSF addresses this challenge by supporting studies on a variety of environments of interest including soils, ground waters, surface waters, coastal marine and estuarine areas, and portions of the troposphere in contact with these environments. Methods from molecular biology and high resolution surface microscopy are combining to revolutionize understanding of many geological processes in these environments. For example, microorganisms have been found to interact with minerals, such as pyrite, causing them to dissolve. Previously, weathering was understood as an inorganic process, but that is now known to be inadequate. The role of microorganisms is critical since it often controls the first step in the dissolution process. Because the constituents of soils and sediments depend on mineral weathering, fundamental knowledge of these complex chemical reactions is basic to understanding environments both natural and man-made, and may have longer-term impacts on our understanding of processes such as the weathering of man-made infrastructure.

—Global change research focuses on interactions among different components of the integrated Earth system. NSF-supported global change research has been instrumental in observing ocean circulation patterns and in advancing understanding of the ocean-atmosphere interactions that have permitted major improvements in capabilities for predicting the onset of major seasonal events like El Niño nearly a year in advance. This prediction enables affected communities to adapt and to minimize the destructive impacts of El Niño. Other global change programs have supported research that improves understanding of the ways that ecological systems respond to changes in climate and to the impacts of climate variability and change on human activities at local and regional scales.

## EVALUATION AND PERFORMANCE

Senator BOND. And you will be able to give us some markers on progress and we will be able to measure in future years your progress toward those goals, those two areas?

Dr. LANE. Yes; Mr. Chairman, but let me be very clear about this kind of research activity, that the way we evaluate what we found and set our priorities is by using expert opinion of scientists and engineers. That is the merit review process that we use now and have used for years. That is also how we will have to evaluate ultimate outcomes of these investments. It is the field advancing? Are we world class in one or another area?

So we have to write these objectives, and we have to present for you these markers or metrics in such a way that it satisfies both the needs, that it is going to be a genuine measurement of quality at the same time.

Senator BOND. Maybe we ought to ask you to have a peer-review group look at from the outside NSF who is not dependent upon you for the funding, evaluate the markers and the guideposts that you set forth, and come back next year as an independent scientific auditor to say are you doing the job? Are you game for that?

Dr. LANE. Well, I think there is not anybody who could not come to NSF. There is not any scientist or engineer who could not come to NSF for support. We support the entire research and education

community, so if you ask who the experts are I would say we probably support many of them.

But I do agree with the point of putting together an objective such as you describe.

SETTING PRIORITIES AND MEASURING PROGRAMS

Senator BOND. We have used the National Academy of Public Administrators and others in many instances to evaluate it, and obviously apparently everybody has the hope of getting an NSF grant, but perhaps—I am sure there are enough scientists, men and women of integrity that maybe we have to have them anonymously work for an independent agency that can evaluate your markers, your guidelines, and then come back to us.

I have been looking forward to seeing from the National Academy of Sciences a report they worked on a couple of years ago about how we do a better job of appropriating research dollars, and we are still struggling to apply the scientific tests in a way that is feasible through the political process.

I would welcome your comments and discussion on that so that we can give assurances to our colleagues and to our constituents that we are getting something for the money, and you all lay out lofty goals and talk about things that are absolutely mind-boggling and breathtaking, but we need to be able to make sure that we are getting our breath taken and our mind boggled in an efficient manner with the dollars that we make available.

Dr. GIBBONS. Mr. Chairman, may I interject just an element that I think you would enjoy?

Senator BOND. Please.

Dr. GIBBONS. The late Lewis Thomas, who was a famous physician and medical writer, once observed that he thought in terms of proposals in the area of basic research that when people proposed things and proposed what they would achieve during the time of that research, that if they came back and reported that they had achieved just what they said they were going to do, they should be penalized, because it means they did not discover anything new that they did not expect, and that I think puts the bottom line on the concern and issues that I know you understand.

Senator BOND. Yes; it makes it a little tougher for you to develop the guidelines you are going to give me on how you measure those things.

Dr. GIBBONS. That is right, but I think there are guidelines, and we are working on this assessment of fundamental science. I believe we are going to make some real progress in the months ahead now as we get ready for GPRA this fall—that is, G-P-R-A—and we very much are in sympathy with your concern that we have got to report back to our investors, the American people, about how well their investment is working.

Senator BOND. Well, we will look forward to working with you. We would like to have that information, and we would like to have a means, better means than we have now, of assessing it, because I think that is really important.

We very much appreciate your time, and I know there are many knowledgeable people in the audience here who seem to be nodding and scratching their heads, and proposing thinking of things.

## ADDITIONAL COMMITTEE QUESTIONS

We would welcome your written comments, but we would keep the record open for you to present to us your suggestions in response to these questions and a few other questions we will submit to you in writing.

[The following questions were not asked at the hearing, but were submitted to the Foundation for response subsequent to the hearing:]

### QUESTIONS SUBMITTED BY SENATOR BOND

#### IMPACT OF BUDGET REDUCTION

*Question*. What programs would the agency cut or eliminate if the subcommittee had to recommend a reduction in the NSF budget of 10 percent? What parts of the budget request would the agency protect?

Answer. A 10 percent reduction in NSF's budget would have serious consequences. It would not only lead to significant reductions in our ability to support the conduct of science and engineering research and education, but would also cause:

—A reduction of approximately 4,600 research and education awards, about 50 percent of the number of new competitive awards;
—Consideration of funding continuing awards below their committed levels;
—A delay in initiation and/or stretch-out of construction for new research facilities;
—Significant reductions for K–12 teacher enhancement; and
—Major reductions in all aspects of undergraduate education.

This level of reduction would also have significant impact on the number of people NSF supports through its programs, with possibly the greatest reduction in numbers of people realized in the support of K–12 teachers. In total, over 20,000 people could lose NSF support. All interagency agreements, memoranda of understanding with other agencies and other countries, and partnership agreements with universities, colleges, other institutions and industry would require reexamination. In the face of such reductions, NSF would continue to move its agenda forward through:

—Significant shifts in funding to maintain areas of priority at or near fiscal year 1997 levels;
—Completion of LIGO construction and initiation of operations of LIGO and Gemini;
—A shift toward graduate traineeships and away from other mechanisms of graduate student support; and
—Maintaining appropriate levels of staff for effective management during a period of massive change.

#### GOVERNMENT PERFORMANCE AND RESULTS ACT

*Question*. NSF's draft strategic plan does not meet the requirements of the Government Performance and Results Act (GPRA). Please provide your timetable for addressing the following issues: (a) long range goals, which are within the agency's statutory authority and span of responsibility; (b) objectives that conform with statutory requirements, and provide guidance in formulating budget requests, setting priorities, and allocating resources; (c) an annual performance plan with quantifiable annual performance goals.

Answer. On March 14, 1997, NSF submitted to all the relevant Congressional committees a copy of its GPRA Strategic Plan. This version contained a mission statement condensed from its statutory authority; both over-arching and outcome-specific goals generated therefrom; investment strategies to achieve those goals; and a set of critical factors for success that address agency management.

Based on comments received from Congressional staff, the Office of Management and Budget, the Office of Science and Technology Policy, and the National Science Board, a revised draft of the strategic plan was developed and forwarded to Congress. This draft will also be available on the Internet in order to provide a broad range of stakeholders an opportunity to comment on it. As required, we will also submit our Strategic Plan to Congress by September 30, 1997. An annual Performance Plan, based upon but distinct from, the Strategic Plan, will be submitted with the President's fiscal year 1999 budget request for NSF, per the Results Act.

NSF recognizes the difficulty of identifying specific goals for which NSF's discrete contributions can be separated from the contributions of other agencies and activi-

ties. Nonetheless, we are committed to working with Congress and the relevant stakeholders in developing and refining over time the most reasonable outcome measures practical.

*Question.* The NSF budget justification states that NSF is committed to delivering "the highest possible social returns" on the Nation's investment in research and education. Could you please explain what you mean by that statement, and how you will measure "the highest possible social returns"?

Answer. A number of studies by economists and others have demonstrated the benefits of research to the economy. We use the phrase "social returns" to refer to this broad range of benefits that research and education activities provide for the public, including new knowledge, the capacity for innovation, and new educational approaches. The statement that appears in the budget justification is one statement of our vision for the agency. It reminds us that we promote the progress of science in order to obtain such returns for the nation. Social returns can only be assessed over time, and then only indirectly. The concept is not appropriate as a performance goal that requires direct measurement.

NSF'S ROLE IN EDUCATION STRATEGY

*Question.* The President placed an extremely high priority on education in his budget proposals for fiscal year 1998. What role is NSF playing in the White House education initiatives? If the President has made education a priority, why does NSF's budget for the education account go up by only 1 percent, and support for precollege math and science education actually decline from the fiscal year 1997 level?

Answer. NSF places high priority on education and has a coordinated set of programs that cross the education spectrum. In fiscal year 1998, the funding request for grade K–12 activities is $376 million, less than $2 million below the fiscal year 1997 level. Nearly 56 percent of the NSF education and training portfolio is invested in grades K–12 with the objective of developing resources and strategies that enable implementation of standards-based mathematics and science education materials. NSF programs thus fully support the Presidential initiative for improving mathematics education, grades K–8.

Informed by fiscal realities and careful review of priorities and emerging opportunities, the fiscal year 1998 budget request redirects funding from certain K–12 activities to other important program areas within the K–12 arena. For example, increased emphasis is planned for pre-service undergraduate preparation and education of teachers by redirecting resources from teacher enhancement activities that focus on in-service training of the existing workforce. NSF will also place emphasis on developing materials and strategies that will ensure the effective application of learning technologies throughout the K–12 sector. Increases will be offset by reductions in the Instructional Materials Development program, which has a number of comprehensive mathematics curricula projects nearing completion. The fiscal year 1998 program thrusts complement NSF's existing large-scale systemic projects that engage entire states, urban and rural areas, and school districts in mathematics and science education reform. In addition, through its dissemination and evaluation activities, NSF will intensify efforts to communicate information about effective curricula, research on teaching and learning, as well as effective strategies for reform and teacher development.

NSF and the Department of Education (DoED) share expertise and work to coordinate their science and mathematics education activities. Recently, in response to a March 6, 1997 Presidential Directive, Dr. Lane and Secretary Riley established a Working Group on Improving Mathematics and Science Education that is comprised of senior officials and program experts from each agency. That Working Group has nearly completed an action strategy for ensuring effective use of Federal resources for improving teaching and learning in support of the President's voluntary, standards-based national mathematics test for individual eighth grade students. The strategy addresses: teacher preparation and professional development; implementation of instructional materials; improved integration of technology into the classrooms; and effective strategies for motivating students.

GRADUATE EDUCATION

*Question.* The budget proposes a new graduate program called integrated graduate research and education traineeships to be supported at a level of $20 million. An additional $14.5 million is being spent on other traineeship programs, thereby increasing traineeship activities by about 65 percent. In order to make this increase, you must have some convincing evidence that this is a good investment. What evaluations have you done of your traineeship programs? Please provide copies of the

evaluations. What criteria were used to determine the fiscal year 1998 funding request? What are the annual performance goals for fiscal year 1997? When will you know if they have been met?

Answer. Development of the new Integrative Graduate Education and Research Training (IGERT) program, to be initiated in fiscal year 1998, is based on need, on an understanding of the ability of the traineeship mode of support to affect institutional change, and on experience with two prototype programs. Recent studies by the National Academy of Sciences and the National Science Board indicate a growing need for broadly prepared Ph.D.'s with multidisciplinary backgrounds. The need for technical, professional, and personal skills essential to addressing career demands of the future also has been articulated in a number of recent studies. The goal of the NSF-wide IGERT program is to develop a new training paradigm by supporting the development of better education and training activities that provide an environment for acquiring those skills, as well as for conducting the nation's premier research.

The IGERT program builds on the strengths of two NSF existing traineeship programs: Research Training Groups and Graduate Research Traineeships. IGERT will support development of innovative graduate education efforts based on multidisciplinary research themes in emerging areas of science, mathematics, and engineering. These grantee-identified themes will provide the framework for integrating research and education and for fostering effective interdisciplinary collaboration of faculty. Projects will develop innovative courses, workshops and other activities; provide access to state-of-the-art research instrumentation and methodologies; offer training experiences relevant to academic and non-academic careers; develop communication and teamwork skills; and provide international perspectives on research. In addition, IGERT will facilitate development of a demographically diverse Ph.D. workforce.

Summative program evaluation can only be conducted after projects have appropriate opportunity to mature. Such evaluations for the programs underlying IGERT are being developed. Interim formative program development is based on project monitoring and focuses on progress in meeting long-range objectives for improving the quality of graduate education and, as appropriate, increasing Ph.D. production in critical disciplinary areas. Projects under both underlying programs have been evaluated through annual reports. Program performance is being strengthened through implementation of an electronic, Web-based distance-monitoring system that collects annual performance data on students and faculty, as well as written reports. The future development of IGERT will be informed by the formal evaluations that are being initiated.

INVESTMENTS IN PRODUCING NEW SCIENTISTS AND ENGINEERS

*Question.* In 1993, there were about 2.5 million people in the U.S. with graduate degrees in science or engineering. In addition, there were about 330,000 science and engineering graduate students. Over 70 percent of the scientists and engineers with Ph.D.'s were working in science and engineering, in their own or a closely related field.

Yet, there are repeated complaints from young scientists (most recently from the co-discoverer of the Hale-Bopp comet) that their opportunities for a career in science are abysmal. In my own state of Missouri, at least one university has tried to address this problem. Washington University in St. Louis has recently chosen to scale back the number of students to those the university can provide full financial support for six years, rather than producing as many students as they can.

Why are you proposing to increase the number of graduate students supported by NSF?

Answer. NSF supports only about four percent of the full-time science and engineering graduate students in the United States. In fiscal year 1998, NSF expects to support approximately 21,000 graduate students, an increase of 2 percent above the fiscal year 1997 level. The majority of this increase (380 students) is directly attributable to the new Integrative Graduate Education and Research Training (IGERT) program. The IGERT program is a focused experiment designed to reform graduate education, making it more responsive to the growing need for researchers and educators who are capable of functioning beyond the boundaries of a single discipline and who have technical, professional, and personal skills necessary to address varied career demands of the future. In addition to IGERT, NSF will provide for a modest increase in the number of students supported as research assistants on NSF-supported grants and a slight reduction in students supported by graduate research fellowships.

COSTS AND MANAGEMENT OF HIGHER EDUCATION

*Question.* Recently Time Magazine ran a story on why a college education costs so much. The article seemed to challenge the entire academic enterprise to wake up to the fact that they—just like corporate America and government—have to downsize, re-engineer, streamline and reduce costs if they are to remain strong and vital institutions in the future. And, by and large, the public perception is that they have not yet stepped up to the plate. What do you think our colleges and universities need to do to remain strong and yet, at the same time, control their costs and management activities.

Answer. University costs are increasing in a number of areas, including physical plant improvements, maintenance of competitive salaries, financial aid to students, acquisition of technical information, upgrading of computer technology, and compliance with federal regulations (such as improving access and services for the disabled). In addition, many public universities face decreasing support from state funds. All these factors result in a difficult financial situation for many universities but one which NSF believes most universities are, each in their own way, attempting to address. NSF can comment on this complex matter only in connection with the research and other activities that the federal government sponsors at universities.

The federal government and university communities face similar budgetary constraints, but share common goals, in the conduct of academic research. There is incentive for both communities to not only work together to assure that universities are fairly compensated for the costs of performing federally-sponsored research, but also to strive to contain the cost of engaging in that research. In that regard, the Federal Demonstration Partnership (FDP) is a valuable forum for both federal agencies and the university community to consider not only which research-related costs should be reimbursed by the federal government, but also to discuss issues such as simplifying accountability for federal funds and eliminating unnecessary administrative requirements.

ANTARCTIC PROGRAM: SOUTH POLE STATION MODERNIZATION

*Question.* The Antarctic External Panel led by Norm Augustine is about to issue their reports on the Antarctic Program. This Subcommittee asked for an examination of the U.S. Antarctic Program about 18 months ago. According to recent Congressional testimony by Mr. Augustine, the panel is going to reaffirm the need for this country to maintain its active and influential presence in the Antarctic. The panel is also going to call for the modernization of the South Pole station to address some very critical safety, health, and structural issues. The panel estimates that a new station and other necessary infrastructure improvements would come to about $145 million—less than earlier estimates that were in the $180 to $200 million range.

If you accept the panel's assumptions and recommendations, an additional $95 million is needed over the next five years to rebuild the station. You have a request of $25 million in the fiscal year 1998 request so if we were to provide the request, over the next few years, you would have to come up with an additional $70 million. Would you agree with that estimate?

Answer. The $145 million estimate includes the following:

| | *In millions* |
|---|---|
| New South Pole Station | $125 |
| Repairs to keep the existing South Pole Station operational during construction of the new station | 5 |
| Minimum infrastructure improvements at McMurdo and Palmer Stations identified by the Augustine Panel | 15 |
| Total | 145 |

NSF's fiscal year 1998 Budget Request includes $25 million for a new South Pole Station. To rebuild the station for $70 million in post–1998 costs, two additional assumptions are necessary. First, the USAP must actually realize an estimated $30 million in savings associated with the transfer from the Navy to other DOD support. These would bring the post–1998 costs down to $90 million.

In addition, NSF would have to reprogram $20 million away from ongoing research and support activities to the South Pole Station rebuilding effort. Which research efforts would not receive funding has not been identified at this early stage.

If this additional reprogramming were implemented, the remaining post–1998 costs would be reduced to the $70 million identified in the Augustine report:

| | In millions |
|---|---|
| South Pole Station and other infrastructure | $145 |
| Fiscal year 1998 Budget Request for South Pole Station | −25 |
| Cost savings | −30 |
| Reallocation of science funds | −20 |
| Total | 70 |

Note that the cost estimates for the South Pole Station were based on inflation rates in use at the time of planning (2.2 percent). Current projected inflation rates are slightly higher (2.7 percent), which may affect the total cost.

*Question.* Within the Administration's outyear profile for NSF, are there sufficient funds to accommodate the cost of the redevelopment of the South Pole station?

Answer. The Administration's outyear profile for NSF's Major Research Equipment Account is flat from fiscal year 1998 to fiscal year 2002. The Foundation continues to examine how to accommodate needs for major projects across the agency within its funding profile. Funding for redevelopment of South Pole Station is one item being considered, in the context of the Augustine Panel statement that the USAP should be viewed as a national program, not as another NSF science project, and should be designed, funded and judged as such.

*Question.* Have you thought about international participation in the redevelopment of the station?

Answer. NSF concurs with Recommendation IV in the Augustine Panel report, which states that "International cooperation in scientific research and logistics support should be encouraged, but permanent facilities and infrastructure at permanent U.S. sites in Antarctica should be provided by and maintained by the U.S." The Panel concluded that:

"Considering the geopolitical history of Antarctica outside the reach of the Antarctic Treaty system, that joint funding and/or ownership of infrastructure and facilities may lead to substantial international legal issues while producing little or no fiscal benefit. The Panel is mindful of the experience of the space program in international cooperation, but draws a strong distinction between joint ownership of a space station—where there are no territorial issues in contention—and the joint ownership of a facility at, say, the South Pole."

The Panel also concluded that:

"To internationalize the physical plant in Antarctica with foreign capital investment in fixed facilities at the U.S. stations raises ownership issues that, ultimately, work to the detriment of U.S. interests and, in the opinion of the Panel, worldwide interests. It is not, it would seem, illogical that a nation which shares the basic costs of the existence of a facility would seek a voice in the operation and governance of that facility—and ultimately in the title to that facility."

*Question.* How do you plan to respond to the Augustine Panel's report?

Answer. NSF is currently analyzing the recommendations contained in the Augustine Panel report to determine how best to address them.

NSF-EPA PARTNERSHIP/ENVIRONMENTAL BIOLOGY

*Question.* A few years back this subcommittee urged NSF and EPA to work together on some common research interests. Part of the reason for that effort was to assist EPA in improving the quality of its research and research program management activities. Recently NSF and EPA decided to renew that partnership activity through a new Memorandum of Understanding. How well is that partnership effort working?

Answer. The NSF-EPA Partnership for Environmental Research has sponsored joint competitions each year since fiscal year 1995. Professional staff from both agencies have worked together to plan and manage the competitions, and both agencies have provided funds to support the highest quality peer reviewed research proposals. The NSF administered the competitions in the first two years while mentoring EPA staff. In the third year of the partnership (fiscal year 1997), the EPA is administering the competitions.

The partnership emphasizes shared investments, shared risks and shared benefits. From an NSF perspective, the partnership has enabled the support of research that synergistically integrates elements of diverse core activities. Fundamental interdisciplinary research has been particularly emphasized in the three competitions sponsored to date: (1) Water and Watersheds, (2) Technology for Sustainable Environment, and (3) Decision Making and Valuation for Environmental Policy. Of special value has been the ability to link the traditional NSF-supported community of researchers with the management-oriented goals of EPA.

NSF has been pleased to join with the EPA to promote the discovery, integration, dissemination, and employment of new environmental knowledge in service to society.

ADMINISTRATIVE EXPENSES

*Question.* One of your "key program functions" is Administration and Management. In your fiscal year 1998 Budget Submission (Overview) you state that Administration and Management function constitutes 4 percent of your request of $3.367 billion. How is that percentage determined?

Answer. The percentage of fiscal year 1998 total support provided for NSF's Administration and Management function is determined by adding the $136.9 million in the Salaries and Expenses appropriation to the $4.85 million request for the Office of Inspector General and dividing by the total NSF request of $3.367 billion.

*Question.* What activities are included in the four percent Administration and management category?

Answer. The Administration and Management function includes funds for staff salaries, benefits, travel, rent, contracted administrative services, supplies, equipment, and other administrative operating expenses.

*Question.* Are there any personnel-related and/or program support-related activities funded out of other appropriation accounts?

Answer. NSF has traditionally funded program support costs from the "program" appropriations because of their direct support to the research and education programs. Some examples include the cost of proposal review panels, contracts for special services—such as proposal processing and evaluation—directly related to the program, and grants to institutions to obtain the temporary assignment of visiting program managers through the Intergovernmental Personnel Act. These scientists and engineers contribute significantly to our program operations. Program support costs are usually program specific, short term costs.

*Question.* Please provide the funding levels for the various program support activities outlined above, including but not limited to cost associated with holding review panels, personnel costs for IPA positions, and costs for performing program evaluation.

Answer. Program support costs funded through "program" appropriations are shown below for fiscal year 1996.

*National Science Foundation Fiscal Year 1996 Program Support Costs*

[In millions of dollars]

| | |
|---|---|
| IPA's | 16.9 |
| Travel—(panelists, committees of visitors (COV) and IPA's) | 5.1 |
| Printing | 0.8 |
| Equipment | 0.3 |
| Contracts (includes education evaluations, SRS and other contracts | 14.6 |
| Panelists and COV's | 4.5 |
| Total | 42.2 |

INTERNET REGISTRATION

*Question.* NSF entered into a cooperative agreement in 1993 with Network Solutions, Inc. (NSI) to manage the registration service for domain names on the Internet. The agreement is due to expire in September 1998. What plans does NSF have regarding the ending of that cooperative agreement?

Answer. The September 30, 1998 date allows for an administrative period for concluding activities such as the preparation and submission of the final report. As a result, the agreement is actually scheduled to be concluded by March 31, 1998. Since there appears to be no need for continued NSF support of an activity which has become self-supporting, no recompetition, extension or other follow-on of the current award is anticipated.

*Question.* How will NSF ensure that NSI does not have an unfair advantage over other potential registrars for domain name services?

Answer. There are currently several proposals based on two alternative concepts being discussed that are posing alternative mechanisms for increasing competition for name registration in Internet Top Level Domains (TLD's). All involve the creation of additional TLD's. One is based on the model of "sharing" of TLD's among several registries (competition within TLD's). Others involve the ownership of specific TLD's by individual registries (competition among TLD's). It is probable that, by March 31, 1998, a number of registries, both "shared" and private, will be competing for domain name registrations.

*Question*. Does NSF retain the rights to the database of registration information?

Answer. In accordance with the principles governing the treatment of copyrightable material produced under NSF awards adopted by the National Science Board on March 16, 1984, the Foundation normally acquires only such rights to copyrightable material as are needed to achieve its purposes or to comply with the requirements of any applicable international agreement or government-wide policy notably Sec.__36(a) of Office of Management and Budget Circular A–110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations (revised November 1993), which for efficient administration the Foundation applies to most of its few for-profit awardees. The Copyrightable Material clause in the Foundation's Grant General Conditions, which were attached to and made part of the cooperative agreement with NSI, provides (in part): "[T]he grantee may own or permit others to own copyright in all subject writings. The grantee agrees that if it or anyone else does own copyright in a subject writing, the Federal Government will have a nonexclusive, nontransferable, irrevocable, royalty-free license to exercise or have exercised for or on behalf of the United States throughout the world all exclusive rights provided by copyright. Such license, however, will not include the right to sell copies or of the copyrighted work to the public."

"Subject writing" is defined in the first paragraph of that clause as meaning any material produced by the awardee or its employees that is or may be copyrightable under Title 17 of the United States Code.

Under the above-quoted Copyrightable Material provision, NSF has a license under any copyright asserted on the database as it exists during, and at the conclusion of, the agreement. Also, under Article 10E of the agreement, NSF has the right to request "a copy and documentation of any and all software and data generated" as part of the final report, which must "contain a description of all work performed and problems encountered * * * in such form and sufficient detail as to permit replication of the work by a reasonably knowledgeable party or organization". This discretionary "delivery" requirement, unusual in an assistance award, was added to give the Foundation the option of continuing to assist Internet registration by supporting some other entity subsequent to the NSI agreement. Since Internet registration has become self-supporting and NSF will no longer be involved in supporting the activity, there is no need for us to obtain that material.

*Question*. Beginning in 1995, NSF authorized NSI to charge $100 to register a domain name initially, and $50 a year to maintain it in the master database. Thirty percent of that money is set aside in an account for the purpose of reinvestment of the "intellectual infrastructure" of the Internet. As of December 1996, over $12 million was deposited in that account, but there has not been any disbursement of funds. What plans does NSF have for using those funds and future monies that will be collected?

Answer. As of April 30, 1997, the balance in the fund was approximately $23.8 million. Consistent with the requirements of the agreement, Network Solutions has proposed that a 501(c)(3) non-profit organization (having no connection with either Network Solutions or NSF), with an appropriate charter and board of directors, be formed to disburse the funds. Using this proposed approach, as of an established date, all funds collected in the account would be transferred into the nonprofit organization, collection of additional Infrastructure funds would cease and fees would be reduced by a corresponding amount. Pending resolution of appropriate details we believe this to be a reasonable plan for disposition of the funds.

*Question*. Recently, there has been criticism of NSI's performance of the registration function and concern about their role as the sole provider of certain categories of domain names. What oversight has NSF conducted of NSI's activities?

Answer. Consistent with normal practice for such awards, NSF conducted an external merit review of NSI's performance in 1994 which found it to be excellent. NSF receives and reviews monthly, quarterly and annual reports on their activities as well as copies of complaints or comments on their service and conducts periodic performance review meetings. Recently, a management review of the registration activity was conducted by the NSF's Office of the Inspector General. The resulting report and Agency response have been released to the public. Additionally, NSF's Office of the Inspector General is currently conducting a financial audit of the NSI award at our request.

*Question*. There is a new proposal from a coalition involving the Internet Society and other interested groups for adding additional generic groups of domain names and adding new registrars. What is NSF's position on this proposal?

Answer. The proposal from the Internet Society is only one of a number of proposals which have recently been advanced to increase competition in the Internet Domain Name registration process. NSF believes that several of the proposals cur-

rently being considered by the Internet community have merit. NSF also believes that any of the proposals being considered will have only minimal, if any, impact on the research and education community which we support. As a result, NSF has no preference at this time among the proposed alternatives.

MATH AND SCIENCE EDUCATION

*Question.* For the past several years, NSF has invested about $300 million annually in efforts to improve K–12 math and science education. How has NSF evaluated the progress in this area? How were these evaluations used in determining the fiscal year 1998 budget request?

Answer. NSF's K–12 education programs benefit from a comprehensive set of evaluation activities that includes project monitoring, formal program evaluations, informal assessments by staff and external experts, and management reviews. As part of NSF's response to the Government Performance and Results Act (GPRA), other efforts are being implemented to ensure accountability: (1) Performance Effectiveness Reviews (PER) of sets of large-scale projects to obtain management and standardized performance information; (2) standardized program evaluation that allows monitoring of individual projects, program aggregation, and cross-site comparisons; and (3) electronic, Web-based monitoring systems. NSF also regularly supports specialized studies, such as the Third International Mathematics and Science Survey (TIMSS) to obtain information on the context in which our programs operate.

Development of NSF K–12 programs is firmly grounded in evaluations and can itself be viewed as implementation research, evolving with observations of strengths and weaknesses. Examples of rationale for major program thrusts include:

—Systemic Reform: NSF is able to broaden and deepen its impact in implementing standards-based science and mathematics education reform when it engages entire school districts and simultaneously addresses requisite policies, curriculum, professional development, assessment, and resources. In the 1995–96 school year, NSF reform initiatives reached nearly 7.5 million students and 103,000 teachers and administrators. Sites reported improvements in standardized achievement tests and statewide assessments in mathematics and science. Program monitoring has demonstrated the need for reform projects to articulate high student and teacher expectations; align assessment and curriculum; converge resources; provide linkages to parents, communities and industry; and develop scale-up strategies. While systemic programs show great promise for being effective, only a portion of the students in greatest need have been reached thus far. A large number of systems are looking for resources (financial and otherwise) to undertake such reform, particularly those in urban settings.

—Teacher Education: A major obstacle to reform and increased student achievement has been shown to be the competency of the instructional workforce. It has become apparent that pre-service preparation of teachers must be accelerated and linked to systemic reform sites. Recent TIMSS findings further indicate the critical need for elementary teachers to develop an understanding of mathematics. While pre-service education is a critical issue, in-service training of the existing workforce continues to remain problematic.

—Technology: The potential of educational technologies, as well as barriers to its implementation are documented by systemic reform, instructional materials development, and teacher education programs. Technology is effectively being used to foster development of learning communities, to provide access to expertise and other resources in underserved areas (e.g., inner cities, rural areas), and to address differences in learning styles.

SUPERCOMPUTERS CENTERS COMPETITION

*Question.* Earlier this year (March 27 and 28) the National Science Board gave its approval for two partnership proposals for supercomputing. How does this supercomputer initiative differ from the previous NSF advanced scientific computing program?

Answer. At its inception, the existing NSF Supercomputer Centers program focused on providing access to high performance computers for the research and education community that NSF supports. This program has evolved over time, moving from providing cycles on vector multi-processors, to exploring and adopting scalable, massively parallel systems. This transition demonstrated that usage and performance advances of these architectures are hampered by difficulties in programming such systems for a broad range of applications. General acceptance of these systems by the research and education community, who generally program applications themselves, can benefit from a broadened effort.

In examining possible structures for an advanced computational infrastructure program, it became apparent that considerable expertise in this area existed at many universities and research centers. The Partnerships for Advanced Computational Infrastructure (PACI) program was NSF's response to the recommendations of the Task Force on the Future of the NSF Supercomputing Centers Program (the Hayes Task Force), and represented a plan to deploy the most competent investigators to develop a coordinated national infrastructure.

The Hayes report indicated that the new initiative should be substantially different from the current activity. In particular, the addition of a large number of partner universities engaged in infrastructure development is a shift from the previous concentration on "leading-edge" sites in the current centers program. The result is a broadening of participation in the program, targeted initiatives in software development, and a national education, training, and outreach effort.

*Question*. How will NSF transition to this new partnership arrangement? (e.g. the phaseout process for those centers not part of the new program, how the user community will be accommodated during the transition process).

Answer. There are several aspects of the transition to the new partnership arrangement—funding, allocations, and phase-out—that merit individual attention.

Funding for the new partnerships is derived from the reduction in operating expenses by reducing the number of "leading-edge" sites from four to two. These savings are accomplished as follows:

—The operations budgets for the leading-edge sites in the PACI program are substantially the same as in the current centers program.

—The capital budget for the overall PACI Program is essentially the same as that for the four previous centers.

—The savings in operations at the discontinued centers program (approximately $20 million in 1997 dollars) will be used mainly to fund partner activities, increased maintenance on the larger system configurations, and a modest increase in staff at the continuing leading edge sites to augment the user support that is expected to increase less than 50 percent at each site.

NSF plans to fund the PACI partnerships through cooperative agreements, the same means used to fund the current Centers. This funding mechanism assures a cooperative management structure, and close oversight of all partnership activities, including those at the leading edge site. An independent contractor will survey user opinion of the performance, and designated NSF staff will be contacted in instances when users do not receive satisfactory responses from center staff. All allocations will remain under the control of peer review allocation panels, with active NSF oversight.

Current allocations of the largest users have been made for the period April 1, 1997 to March 31, 1998. Future allocations for these resources will be made only at permanent PACI leading edge sites and partner sites, as appropriate. All plans include retention and use of current facilities for the entire transition period at centers being phased out.

Both of the new PACI sites, the National Partnership for Advanced Computational Infrastructure (NPACI) at the University of California, San Diego and the National Computational Science Alliance (NCSA) at the University of Illinois at Urbana-Champaign, are making plans for new systems and upgrades to be brought online during the fall of 1997. These systems are powerful enough to meet the current demand, even without the Pittsburgh Supercomputer Center (PSC) and the Cornell Theory Center (CTC) resources, and are expected to attract some users from phase-out sites. Both NPACI and NCSA have active plans for workshops and training sessions to orient current users of both PSC and CTC to the new facilities.

Very few high-end users make exclusive use of resources at only one center. We do not anticipate a major difficulty in providing proper orientation and training to this segment of the community. Other users will be moving from one phasing-out center to a partnership to utilize the same type of computer system. The problems resulting from this transfer are substantially less than a change in operating systems at one facility, an event that has occurred and been successfully addressed many times during the history of the centers program.

One potential significant problem is the movement of user data from one center to another. This is a consequence of the fact that PSC had not adopted the same standard mass storage systems as the other centers. As a result, the migration of files from PSC may also involve some data translation and record reformatting. NCSA is already working with the largest users at PSC by providing access to the NCSA Origin 2000 computer system to ease the transition.

The NPACI's facilities at the San Diego Supercomputer Center (SDSC) will support a new vector system approximately 75 percent faster than the current systems at PSC. The greater speed machine should attract users, and the capacity to be

added should equal the current capacity at PSC and SDSC. Additionally, NPACI will be augmenting its distributed memory system to one having approximately the same capacity as the one at CTC.

Transition plans for both CTC and PSC include measures to retain key personnel during the phase-out period. NSF plans to augment user support services at both NCSA and NPACI to handle the new user load. Towards this end, NCSA has completed a reorganization of its user support function and is expected to have the new structure in place by the summer of 1997 to meet the requirements of PACI. It appears that no reorganization will be necessary at NPACI, except for that involving the integration of partnership expertise into the national infrastructure.

When the current Supercomputer Centers program was extended by the National Science Board (NSB) in October 1994, and again in the Board's December 1995 resolution approving the new PACI program, all of the centers were informed that the transition would begin immediately following Board approval of the new awards. After analyzing the cost structure of each center, NSF concluded (based on the argument outlined below) that one year's operations budget (i.e., excluding all supercomputer capital payments) should be sufficient to support a center for 15–18 months, if they started to reduce expenditure levels immediately.

NSF is now providing an average of $800,000 per month for non-capital items (salaries and wages, maintenance, expendable materials and supplies, indirect costs, etc.) at each center. A phase-out model was constructed that included a linear ramp-down of personnel from April 1, 1997 staffing levels to a 25 FTE level in early fiscal year 1998 which generally results in a loss of about 2.5 FTE/month. Other expenses were modeled as fixed (hardware maintenance, software licenses, power, utilities), while others (travel, training, etc.) were set to arbitrarily lower (but non-zero) levels; indirect costs were estimated at the last current rate. Based on the different cost structures at each center, this model projected an operation time of 15–18 months. With this, NSF allocated one full year's operating expenses (at an $11 million level, about $1 million higher than actual) to be expended during a period not to exceed 24 months beginning April 1, 1997, for phase-out. The detailed validity of the model is being explored in phase out negotiations with PSC and CTC.

This $11 million figure was authorized in the NSB resolution, i.e., a sum not-to-exceed one full year's operational funding (actually $11 million) that could be expended over a period not-to-exceed two years, starting April 1, 1997. Thus, the last six months of the final year of the extended cooperative agreement would be part of the phase-out.

MERIT REVIEW PROCESS—ADJUSTING THE CRITERIA

*Question.* The Foundation and the Board have recently issued draft revisions to the merit review criteria. Please provide background and an update on the status of this effort.

Answer. NSF's current criteria were adopted by the National Science Board in 1981. They remain an effective means for determining the optimal allocation of NSF's valuable resources. From time to time, it is nevertheless prudent to examine the review criteria—in the spirit of improving an already outstanding system.

Furthermore, there are also a number of important factors that deserve consideration in any assessment of NSF's review criteria, such as:

—NSF's 1994 strategic plan established long-range goals and core strategies for the Foundation;

—Several studies suggest that there is room for improvement in NSF's highly successful system of merit review. For example, surveys of reviewers and program officers have revealed that the current criteria are not always well understood and some are often ignored; and

—Seminal events over the past fifteen years—notably the end of the Cold War and the rise of global economic competition—have altered the context for public support of research and education. It is now more important than ever to highlight and document the returns to society on NSF's investments in research and education.

On March 28, 1997, the National Science Board passed a resolution approving use of the following criteria for all proposals reviewed beginning October 1, 1997:

1. What is the intellectual merit of the proposed activity?

The following are suggested questions to consider in assessing how well the proposal meets this criterion: How important is the proposed activity to advancing knowledge and understanding within its own field and across different fields? How well qualified is the proposer (individual or team) to conduct the project? (If appropriate, please comment on the quality of prior work.) To what extent does the pro-

posed activity suggest and explore creative and original concepts? How well conceived and organized is the proposed activity? Is there sufficient access to resources?

2. What are the broader impacts of the proposed activity?

The following are suggested questions to consider in assessing how well the proposal meets this criterion: How well does the activity advance discovery and understanding while promoting teaching, training, and learning? How well does the proposed activity broaden the participation of underrepresented groups (e.g., gender, ethnicity, geographic, etc.)? To what extent will it enhance the infrastructure for research and education, such as facilities, instrumentation, networks, and partnerships? Will the results be disseminated broadly to enhance scientific and technological understanding? What may be the benefits of the proposed activity to society?

The Task Force's Final Recommendations are available on the World Wide Web at http://www.nsf.gov/home/nsb/pubs/nsbmr975/nsbmr975.htm.

A task group of NSF staff is developing procedures to implement the Board's resolution.

PRIVATIZING LOGISTICS IN THE ANTARCTIC

*Question*. This past season in the Antarctic, private sector helicopter support was used in place of the helicopter support of the Navy, as part of the privatization actions you have been undertaking for sometime. How well is the privatizing program working and do you agree with the Augustine External Panel's estimates that an additional $30 million over the next 5 years will be saved if we continue with these privatization efforts?

Answer. Since 1993 when the Navy proposed a phased withdrawal from the U.S. Antarctic Program, NSF has planned for replacement support by both civilian contractors and other Department of Defense units, including air support by the New York Air National Guard. The 1996–1997 field season was the first year of civilian helicopter support, provided by Petroleum Helicopters, Inc. (PHI) of Lafayette, Louisiana. NSF considers the transfer of this function an extraordinary success for the following reasons:

—Helicopter operations costs have decreased from $5 million to about $2.5 million per year.

—The "footprint" in McMurdo has decreased from 52 to 18 people, placing less strain on station resources, and the aircraft footprint has decreased from six to four.

—A greater overall efficiency of operations has been realized, with a 20 percent reduction in flight hours with no decrease in support service.

—There is a greater platform variety—the helicopter inventory is now comprised of light and medium-lift aircraft. Previously, only medium-lift helicopters were available through the Navy.

—PHI had a perfect safety record this season with no helicopter accidents or incidents.

Other parts of the transition are also continuing on track. An agreement between the NSF, Office of the Secretary of Defense, Navy, Air Force, and Air National Guard (ANG) will result in transition of the LC–130 aircraft operations from the Navy to the ANG by March 31, 1999.

Other functions supported by the Navy such as medical services, services in New Zealand, and communications, will be transferred in fiscal year 1998 to civilian contractors in fiscal year 1998. Air traffic control and weather forecasting functions will be transferred to civilian contractors under the management of other DOD units.

DOD will continue to support the following functions: procurement of fuel, fuel and cargo ships, and some engineering services.

NSF believes the Augustine Panel's estimate that up to $30 million can be saved over the next five years (fiscal year 1998–2002) as a result of the transition to private contractors and other DOD providers—is realistic.

ACADEMIC RESEARCH INSTRUMENTATION

*Question*. The budget contains no discussion about academic research infrastructure. Last year NSF proposed to terminate its support for the modernization of research facilities. That was a decision this subcommittee supported reluctantly. But now this budget is strangely silent on the instrumentation program for fiscal year 1998. Are you going to support the effort in fiscal year 1998 and, if so, why is there no discussion or funding level outlined in the budget proposal?

Answer. The NSF's Academic Research Infrastructure (ARI) Program was well conceived, well planned, and well leveraged but the overall impact on the nation's research and research training facilities infrastructure was relatively minor. This program, funded at approximately $50 million per year, was not a major source of

funds for colleges and universities that were renewing their research infrastructure. With approval from the National Science Board, NSF decided to focus its investment of limited funds in areas where NSF can make a major contribution to the science and engineering education enterprise. Consequently, NSF chose to terminate the ARI facilities program.

NSF will continue to support instrumentation programs in fiscal year 1998. As mentioned in the discussion of Research Project Support within NSF's fiscal year 1998 budget justification, $50 million will be used to continue support for an NSF-wide instrumentation program. This program, formerly funded out of the Academic Research Infrastructure appropriation, is now supported through the Research and Related Activities appropriation. In addition, approximately $180 million in additional support for smaller-scale instrumentation will also be provided.

STATUS OF GREEN BANK AND ARECIBO TELESCOPE OVERRUNS

*Question*. In December press reports circulated about the Arecibo telescope and the Green Bank telescope. Stories of cost overruns and significant delays appeared on the pages of Nature magazine. Please provide the status of these two telescope. What steps have been taken to address the construction management issues associated with large scale facilities?

Answer. The Green Bank Telescope (GBT) is located at the National Radio Astronomy Observatory's (NRAO) Green Bank, West Virginia site. In December 1990, Radiation Systems Inc (RSi) was awarded a $55 million fixed-price, design-and-build contract by NRAO's managing organization, Associated Universities Inc (AUI), for the 100-meter diameter Green Bank telescope. In 1994, COMSAT Corporation purchased RSi and its subsidiaries.

The telescope was originally contracted for delivery in late 1994, but the contractor was unable to meet this date. The current schedule calls for completion of the telescope assembly, telescope, installation, and alignment of the panels by the contractor by the end of April 1998. Recently, the contractor requested that the schedule be extended by an additional eight months, but has been told that further delays are unacceptable; the contractor has been asked for clarification and a plan to keep the project on schedule. All the systems for the telescope that are to be provided by the NRAO are expected to be ready for a delivery as early as April 1998.

Progress on the telescope has been significant during the past year, with the contractor's workforce nearly doubled at the job site in recent months. All 16 million pounds of steel that make up the telescope have been designed, engineered, fabricated, and delivered. About 1,500 of the 2,200 curved aluminum reflecting panels have been manufactured. The 165-foot-high telescope base is essentially complete, and the 100-meter diameter surface backup structure has been pre-assembled on the ground; it will be lifted into place on the telescope for final welding beginning in June.

In an attempt to recover costs incurred due to its delays, the contractor has filed claims against AUI under the Disputes provision of the telescope contract; the claims allege that actions on the Observatory's part have resulted in additional costs. The initial claim filed in October 1995 totaled $14.4 million; in December 1996, it was increased to $28.6 million. AUI disputes the factual basis of these claims, and is auditing their fiscal basis. Should the claims be unresolved to the mutual satisfaction of NRAO and COMSAT RSi, the contract calls for binding arbitration. At this stage, the claims do not involve the National Science Foundation.

At the National Astronomy and Ionosphere Center's (NAIC) Arecibo radio telescope, NSF and NASA co-funded—approximately equally—a major upgrade projected to cost $22 million. The upgrade has three separate elements: (i) structural reinforcement of the main antenna structure and the installation of so-called "Gregorian" reflectors to correct the aberration of the main spherical antenna; (ii) construction of a 50-foot high ground screen surrounding the 1,000-foot diameter main dish to reduce the effect on astronomical observations of scattered radiation from the ground; and (iii) doubling the power of the planetary radar.

All upgrade construction was completed in April 1997, and NAIC staff are now in the process of putting the Arecibo radio telescope—the world's largest—back into service. The upgrade, started in 1992, was originally scheduled for final completion at the end of 1995, and is thus about 15 months late. (It should be noted that the telescope was only out of service for about one year of the upgrade period.) The upgrade project ran over its original 1990 budget by about 7 percent; the costs of the overrun were borne by the NAIC program within the Division of Astronomical Sciences.

In June 1996, the prime contractor for the structural reinforcement phase of the project, RSi (now COMSAT RSi), filed a $7 million lawsuit in Federal Court against

Cornell University, NSF's manager of NAIC. NSF is not a party to the suit. The crux of the lawsuit is COMSAT RSi's contention that Cornell did not provide adequate and accurate engineering drawings of the Arecibo radio telescope to RSi. Since these drawings were the responsibility of Cornell's engineering contractor for the Arecibo facility, Amman and Whitney (AW), Cornell has made AW a third party to the law suit. Cornell disputes COMSAT RSi's claims and has counter-sued the contractor for $635,000 in excess costs resulting from the company's failure to complete its work in a timely fashion. The case is scheduled to go to trial in United States District Court, Northern District New York. The trial date was recently (re)set to May 4, 1998. Both sides are gathering information at this time.

Regarding the construction management issues associated with large scale facilities, the Foundation is taking a number of steps to minimize the possibility of future problems like those associated with the GBT and Arecibo projects. First, the Foundation plans a high-level review of its methods for overseeing management of large facilities, and intends to provide closer project oversight where needed in the future. Second, in light of our Green Bank experience where the contractor subcontracted a key activity of the project, NSF will now take steps to ensure that more careful attention will be paid to the in-house capabilities of potential contractors.

Finally, the construction of any large single telescope presents a unique potential problem: the telescope being constructed is also the prototype. This issue is particularly acute when the telescope breaks new ground in technology, as was the case with the GBT.

MILLIMETER ARRAY (MMA)

*Question*. In light of the situation with respect to your ongoing telescope projects, why is it necessary to start forward with the new Millimeter Array radio telescope? Please describe the project, the outyear funding implications, as well as your interactions with NASA to coordinate with ongoing NASA programs.

Answer. We are confident that the construction and management of the Millimeter Array (MMA) will not encounter the same type of concerns involved with the Green Bank Telescope (GBT) and the Arecibo radio telescope. The MMA is a mature concept; there are no technical impediments to making the instrument work.

Any problems encountered in developing the prototype during the Design and Development phase will be resolved prior to beginning the construction phase of the project. Construction of the MMA was endorsed by the Astronomy and Astrophysics Survey Committee of the National Research Council (NRC) as the highest-priority radio astronomy project for the 1990's in its last decadal planning study (the "Bahcall Report"). Most important, momentum for the project has built up over the past few years to the point where there is now strong international interest in cooperation; postponement could put this at serious risk.

The MMA will be the world's most sensitive and highest-resolution millimeter-wavelength telescope, and will consist of an array of antennas rather than a single antenna. In the proposed Design and Development phase, it will be possible to construct a true prototype, resolve on a small scale any problems that will be encountered, and then proceed to replicate the prototype many times during the construction phase. Millimeter wavelength astronomy provides a testing ground for theories of star birth and stellar evolution, galaxy formation and evolution, and the evolution of the Universe itself. The chemistry and composition of the interstellar medium, the earliest stages of star formation, and the internal kinematics of luminous galaxies are uniquely revealed by observations at millimeter wavelengths. The MMA will combine angular resolution comparable to that of the Hubble Space Telescope with the sensitivity of a single antenna over 50 meters in diameter.

With these capabilities, the MMA will reveal the inner workings of the central black hole "engines" which power quasars, and will make possible a search for planets around hundreds of nearby stars. Instrumentation to be developed for the MMA will push existing gallium arsenide (GaAs) and indium phosphide (InP) amplifier technology to high frequencies, will challenge production of high-density, high-speed integrated circuits, and can be expected to stimulate commercial device and communication technologies.

Physically, the MMA is to consist of 40 transportable, precision antennas, each eight meters in diameter and equipped with a suite of advanced receivers. To fulfill its potential, the array must be located at a high, dry site. Two candidate sites currently under serious consideration and undergoing testing for sky transparency and phase stability are Mauna Kea, Hawaii, and a high plateau in Northern Chile.

The MMA was proposed to NSF by the National Radio Astronomy Observatory in 1990. It is expected that the MMA will be a cooperative project, with the construction and operating costs to be shared by international partners or other Fed-

eral agencies. The NRAO has active discussions underway with the Netherlands, Japan, Chile and Spain.

The total cost for design, development and construction of the MMA is estimated at $232 million. Estimated annual funding requirements are:

[By fiscal year]

| | *In millions* |
|---|---|
| Design and development phase: | |
| 1998 | $9.0 |
| 1999 | 9.0 |
| 2000 | 8.0 |
| Capital construction phase: | |
| 2001 | 30.8 |
| 2002 | 50.5 |
| 2003 | 50.6 |
| 2004 | 38.1 |
| 2005 | 35.9 |
| Total | 231.9 |

Although we have presented a five year capital construction timeline, the design and development phase will address the question of the optimum construction period for this project. Also, current budget planning models assume cost-sharing between NSF and international/other agency partners on roughly a 60/40 percent basis.

The annual operating cost for the MMA is estimated to be $8.5 million in fiscal year 1998 dollars. All of the U.S. share of the operating funds will come from the Research and Related Activities appropriation; however, approximately $3 million of these funds will come from the closure of the NRAO 12m millimeter-wave antenna on Kitt Peak.

NSF would welcome NASA participation in the MMA project as part of the Space Agency's Origins initiative. Discussions between the NSF and NASA staff have been held, as yet with no definite results.

POLAR CAP OBSERVATORY

*Question*. The budget also proposes another new start, the Polar Cap Observatory. In this very tight budget environment, why are you proposing this new start at this time?

Answer. Completion of the PCO by the year 2001 will allow observations during the Sun's next sunspot maximum phase, during which the dramatic effects of solar storms on Earth's upper atmosphere occur more frequently. The Polar Cap Observatory (PCO) is planned for construction in Resolute Bay, Northwest Territory, Canada and will be completed in three years.

The facility will include an array of radiowave and optical instruments for remotely sensing properties of the upper atmosphere and ionosphere. The centerpiece of the facility is a large, state-of-the-art incoherent scatter radar. Fiscal year 1998 proposed funding of $25 million fully constructs the PCO with no further construction funds required in the outyears. The PCO will also complement a constellation of international research satellites being deployed over the next five years.

At a location very close to Earth's magnetic pole, the site of unique atmospheric phenomena such as sun-aligned auroral arcs and drifting ionospheric plasma clouds, the PCO will serve as the apex of both the U.S. and European chains of large upper atmospheric radar facilities. The PCO will allow us to better understand these unique atmospheric phenomena, enabling us to better forecast space weather, leading to the prevention of satellite damage, communication and navigation disruptions, and electrical power loss.

LARGE HADRON COLLIDER

*Question*. While not yet in the NSF budget, the Department of Energy is proposing an advance appropriation of nearly $400 million for the Large Hadron Collider as part of its fiscal year 1998 budget. Is the Foundation planning on participating in the LHC and if so, when and in what way? Please provide the Foundation's funding profile and programmatic interest in the LHC.

Answer. In February 1996, the National Science Board approved a Project Development Plan which authorizes NSF to proceed with planning and R&D support for possible eventual NSF participation in the Large Hadron Collider (LHC). In fiscal year 1996, about $1 million was provided from the Research and Related Activities (R&RA) account for these activities. We are planning to spend up to $1.4 million

toward R&D in both fiscal year 1997 and fiscal year 1998. NSF grantees are proposing involvement in two detectors, ATLAS and CMS. NSF will not be involved in the construction of the LHC accelerator. It is standard practice at accelerator labs around the world that participating parties make financial and in-kind contributions to hardware for the experiments (i.e. the detectors) in which they are involved. NSF support for the construction of the detectors would likely begin in fiscal year 1999 and end in fiscal year 2003.

NSF support for R&D and construction of the detectors was projected to be approximately $81 million. It is likely that a substantial portion of the funds will be requested through the Major Research Equipment (MRE) account, although the internal discussions that will shape our request have not yet been completed.

We anticipate that about $61 million of the $81 million total would go to ATLAS R&D and construction, and the remaining $20 million to CMS R&D and construction. Operations costs for NSF participants would be in addition to these amounts, and would be provided via NSF's usual proposals procedures from R&RA resources.

The National Science Board (NSB) authorized NSF participation in these construction projects at its May 1997 meeting. CERN has been informed from the beginning that NSB approval is necessary prior to NSF's involvement. This is written into the "Umbrella Agreement" and the "Experiment Protocol" that have recently been initialed by DOE, NSF, and CERN. The Director General of CERN, Chris Llewellyn-Smith, attended the March 1997 NSB meeting to discuss the LHC project with the Board.

The DOE and the NSF have worked very closely together on this project. The process has been mutually consultative at each step over the last two or more years, and the result, in terms of inter-agency cooperation, has been very positive. Dr. Martha Krebs, Director of the Office of Energy Research at DOE, also attended the March 1997 NSB meeting to discuss the LHC project with the Board.

To our knowledge, CERN has never stated that the U.S. would not be allowed access to the LHC should we not contribute. The Director of CERN, Chris Llewellyn-Smith, has recently reaffirmed that CERN has an "open door" policy with respect to U.S. participation in the LHC. This policy is a continuation of long-standing international tradition in the fields of nuclear and particle physics.

UNDERGRADUATE EDUCATION

*Question*. The fiscal year 1998 budget also puts a rather high priority on undergraduate education—with a particularly large emphasis on an undergraduate reform initiative. What are your reasons for emphasizing undergraduate education seemingly, by the way, at the expense of the precollege level of education?

Answer. In fiscal year 1998, NSF requests an increase of $11.3 million (or 12.9 percent) for several critical undergraduate areas—teacher education, undergraduate institutional reform, and advanced technological education. Many of these NSF-funded undergraduate programs will in fact have a major impact on K–12 education. The rationale for these areas of emphasis are as follows:

—*Pre-Service Teacher Education*.—The availability of well-trained teachers has been identified as one of the most critical needs of school systems engaged in science and mathematics reform. Retirements, student population growth, and turnover will require the hiring of more than two million teachers during the next decade, over 75 percent at elementary and middle grade levels. Therefore, NSF is investing more of its teacher education resources in accelerating production and subsequent career retention of teachers whose preparation meets national science and mathematics education standards.

—*Undergraduate Institution Reform*.—Recent studies highlight the need for improving undergraduate education in science, mathematics, engineering, and technology (SMET) in order to achieve major gains in learning for all students—SMET majors, non-majors, and the future K–12 instructional workforce. Building on pilot efforts, this program will lead to visionary institutional models for stimulating the modernization of academic culture and infrastructure through development of innovative curricula and courses; revision of faculty reward systems; modification of operating policies, procedures, and budgets; and development of effective partnerships with industry and the broader community.

—*Advanced Technological Workforce*.—Critical high-technology industrial sectors face shortages of personnel with requisite SMET expertise. Program efforts in this area address this need, as well as strengthen the capacity of two-year colleges to deliver SMET education. The effort also facilitates the transition among secondary schools, two- and four-year institutions, and the workplace and builds effective partnerships between the academic and industrial sectors.

The proposed fiscal year 1998 support for preK–12 education ($376 million) is a relatively modest decline of $1.73 million from fiscal year 1997. Within this relatively stable funding environment, NSF can continue to strengthen its programmatic impact by broadening systemic reform efforts; redirecting teacher education activities; and focusing attention on materials development and implementation strategies that effectively bring learning technologies into the classroom. NSF will also intensify its dissemination of standards-based curriculum models, research on teaching and learning, and effective strategies for systemic reform, teacher education, and the engagement of underrepresented groups (e.g., minorities, women, and the disabled) in SMET disciplines.

SCIENCE AND TECHNOLOGY CENTERS

*Question.* The fiscal year 1998 budget proposes a net decrease in support of your science and technology centers of about $6 million. What is the Foundation's long range plan for the science and tech centers programs? Are you beginning to phase it out with this request?

Answer. NSF has recently concluded a major evaluation of the Science and Technology Centers (STC) program in order to determine the future of the program. The National Academy of Public Administrators (NAPA) performed an evaluation of the management of the STC program and published their findings in NSF's STC Program—Building an Interdisciplinary Research Paradigm (July 1995). Abt Associates Inc., under contract to the NSF, performed an evaluation of the STC program to determine the progress of the program towards its stated goals. This study was completed in June 1996. The National Research Council also performed an assessment of this program and the utility of this mode of support for fostering interdisciplinary research and published a report on their findings in An Assessment of the NSF's STC Program (August 1996). Finally, an STC ad hoc Advisory Committee reviewed the findings of the aforementioned reports as well as reports from the NSF research directorate advisory committees on the STC Program, and made recommendations to the Director of the NSF regarding the STC program and how it fits into the NSF strategic plan. All of the reviews and evaluations stated this mode of support was very valuable to the NSF portfolio and recommended that the STC program should be continued.

NSF views the STC program as a vehicle for innovation in the integrative conduct of research and education and knowledge transfer. This program helps NSF fulfill its strategic vision and, with programmatic and management modifications, we will continue to support it.

On the basis of the numerous evaluations and reviews, in February 1997, the National Science Board approved a plan to hold a new competition for Science and Technology Centers: Integrative Partnerships. This competition for new centers will be initiated in fiscal year 1998, with new competitions to be held about every three years. Each competition is expected to be for approximately $25 million with a steady-state being reached in 2006 of approximately $75 million.

In the guidelines for the initial Science and Technology Centers program, it was written that the awardees would have a maximum of eleven years of NSF support and would be phased out in the final two years of their awards if they continued to be successful. In fiscal year 1998 the planned budget phase-down for the first cohort of STC's begins. Also in fiscal year 1998, NSF will have shut down two STC's due to performance issues. These factors contribute to the net decrease in support for STC's in the fiscal year 1998 budget.

LASER INTERFEROMETER GRAVITATIONAL WAVE OBSERVATORY

*Question.* Support for the LIGO observatory is slated to decline by some $22 million in fiscal year 1998. Presumably, this is because the construction phase of this project is beginning to come to an end. Please provide a brief update on LIGO.

Answer. The fiscal year 1998 request for LIGO construction of $26 million represents the final increment of support for LIGO construction. The construction at Washington is proceeding on schedule, but unusual rainy weather has delayed the scheduled initiation of construction activities at the Louisiana site. This is not expected to cause any significant delay in the final completion of the entire construction project.

In Washington, the concrete slabs supporting the two beam tubes (4 km vacuum pipes) have been finished. All beam tube sections produced have been individually tested, and no leaks were discovered that were due to the manufacturing process. Manufacture of the remaining tube sections is nearing completion and the contractor is planning to demobilize the spiral beam tube mill around June 1 in order to move it to Louisiana. Currently, one entire beam tube has been assembled and vac-

uum testing will begin shortly. The manufacture of all the 2,500 precast concrete beam tube enclosures is complete, and the casting forms are being demobilized for shipment to Louisiana. The corner and mid-station buildings are under construction. The vacuum equipment vendor has completed six of the large vacuum chambers which will house the optical components needed for the experimental program.

In Louisiana, the first concrete was poured in March. Preparations are underway for the installation of the concrete slabs, and the road along one arm has been constructed. The state of Louisiana has completed construction of the bypass road which provides alternate access to the southern end of the facility.

PRECOLLEGE TEACHERS OF SCIENCE AND MATH

*Question*. In fiscal year 1998 you are proposing to increase your support for teacher preparation substantially (up by $7 million) while at the same time you are calling for a reduction in support for teacher enhancement to the tune of $8 million. Please explain the difference between teacher preparation and teacher enhancement and why the teacher preparation program is being emphasized seemingly at the expense of enhancement activities.

Answer. Teacher training activities—both preparation and enhancement—remain high priority areas within NSF's support of K–12 education. The goal of both programs is to support development of a K–12 instructional workforce with sufficient grounding in disciplinary content and pedagogy to deliver standards-based science and mathematics education. Teacher preparation focuses on undergraduate education of pre-service (or future) teachers; teacher enhancement focuses on strengthening skills of in-service teachers (i.e., the current workforce). In general, teacher preparation is viewed as a long-term strategy for improving the instructional workforce while teacher enhancement is more short-term in nature. Each strategy complements the other and activities must be coordinated. Over time, stronger pre-service teacher training will change the nature of in-service training.

The redirection of funding to teacher pre-service education is derived from identified needs at the national level, as well as those to ensure success of NSF systemic reform projects. Studies show that (1) retirements, student population growth, and turnover will result in the hiring of more than two million teachers during the next decade, over 75 percent at elementary and middle grade levels and (2) availability of well-trained teachers presents a major obstacle to the effective implementation of science and mathematics education reform. In fiscal year 1998, NSF intends to pursue a revised strategy for teacher preparation that will accelerate production and subsequent career retention of teachers whose preparation meets national science and mathematics education standards.

Teacher enhancement operates in an environment in which a vast majority of an instructional workforce of more than 2.5 million teachers requires remedial training, especially at the K–8 grade levels. Over the past several years, teacher enhancement has pursued a strategy for training the instructional workforce within entire districts thereby broadening program impact, strengthening the training of individual teachers, and positioning school districts for continual development of their instructional workforce well after termination of NSF funding. The gains made under this strategy will leave in place a strong program despite the budget reduction.

OCEAN DRILLING VESSEL REFIT

*Question*. The budget proposes to allocate about $1.5 million for some retrofit work associated with the ocean drilling vessel. Please provide the agency's future plans for the ocean drilling program.

Answer. The Ocean Drilling Program is a multinational program of basic scientific research in the oceans which uses drilling and data from drill holes to improve fundamental understanding of the role of physical, chemical and biological processes in the geological history, structure and evolution of the oceanic portion of the earth's crust. Operational support for this activity is shared by seven international partners, comprising 19 other countries.

In fiscal year 1998, the JOIDES Resolution is scheduled for a mid-life refit. This refit, which will cost $6 million over two years, is necessary to extend the life of the ship. This will be the first major replacement and upgrading of primary ship systems since the ODP began in 1985. Emphasis will be on ship station-keeping capability, pipe handling and drilling systems, and improvements to laboratory and personnel spaces. With these improvements, operational life of the vessel will be adequate to support the Program through 2003.

An additional motivation for conducting a mid-life refit is that doing so will result in considerable cost savings to NSF. Under the terms of the operating contract for the ship, unless a refit is done, the daily rate NSF is charged for drilling activities

will have to be renegotiated. The large increase in ocean drilling activities associated with oil exploration has caused the average industry daily rate to jump significantly. We estimate that a renegotiated daily rate would be at least twice what we currently pay. Under these assumptions, the entire cost of the mid-life refit will be recovered in cost savings in about 120 days of operation. The JOIDES Resolution is operated essentially year-round.

In addition, planning for ocean drilling activity beyond 2003 is underway. JOIDES (Joint Oceanographic Institutions for Deep Earth Sampling) has recently published a Long Range Plan which calls for the addition of a second drilling vessel in the period following 2003. This vessel would be capable of deploying a marine riser and well-control equipment to improve hole stability while drilling deep holes and to allow drilling in areas of oil and gas accumulations.

Simultaneously, the Science and Technology Agency (STA) in Japan has been working to attain resources to construct a next-generation drillship of the type envisioned by JOIDES. STA is committed to seeking the $500–$600 million required for the new vessel's construction.

Recently, the Japanese and JOIDES plans have been merged into what is presently called the "Integrated Ocean Drilling Program" which would operate two vessels—one to undertake global studies of climate and oceanographic processes requiring large spatial arrays of cores, and the second to provide deep drilling for studies of continental and ocean crust evolution. NSF and STA staffs are pursuing additional international participation in the program.

ARCTIC RESEARCH VESSEL

*Question.* Please provide an update on the Coast Guard icebreaker. What role is NSF playing so that this vessel will serve the needs of the arctic research community?

Answer. NSF and the U.S. Coast Guard established an Arctic Icebreaker Coordinating Committee (AICC), which operates under the auspices of the University National Oceanographic Laboratory System (UNOLS). The AICC chair, Dr. James Swift of Scripps Institution of Oceanography, reports that the AICC has made an "excellent start to a working relationship with the ship construction oversight group" of the Coast Guard. The AICC, which represents the research community, has met both in Washington, DC, and at the shipyard in Louisiana where the icebreaker is being constructed. Based on these reports, the committee has made a number of recommendations regarding science-related layout and specifications of the ship and has found the Coast Guard receptive to these suggestions. In fact, certain changes in the main deck science area will be accommodated during construction instead of waiting until after delivery in 1998, as originally planned by the Coast Guard. Dr. Swift states that AICC is pleased that the Coast Guard is working to meet the needs of the research community. Final conclusions on the suitability of the ship for research support purposes will ultimately depend on sea trials, but at this point the research community is optimistic about progress with respect to the ship, which has been named the Healy.

TECHNOLOGY PROGRAM IN RESEARCH, EVALUATION, AND COMMUNICATION

*Question.* The Technology program in EHR is slated to increase by over 40 percent in fiscal year 1998. What is this program designed to accomplish and why is such a substantial increase necessary?

Answer. In education, technology is both the catalyst for change and a means to implementing significant reform and restructuring. It affords the opportunity to equalize access to high-quality materials and expertise; to connect learning communities that foster development of knowledge bases; and to individualize instruction in response to differences in learning styles. Yet, the academic sector has yet to visualize the potential, let alone realize the benefits of the computer revolution.

The Foundation brings leadership and critical expertise to research, experimentation, and implementation of educational technologies that support science, mathematics, engineering, and technology (SMET) education. Current programmatic emphasis is on developing new strategies that promise to make significant and lasting improvements in the nation's educational system. In fiscal year 1998, the technology-related increment of $5.25 million is directly attributable to Learning and Intelligent Systems (LIS) which supports the NSF-wide Knowledge and Distributed Intelligence (KDI) initiative. LIS will stimulate interdisciplinary research that promotes use and development of information technologies in learning. Priority will be placed on: (1) embedding technology within learning systems for judicious and appropriate use; (2) expanding R&D on advanced technologies for the enhancement of student achievement and teacher competencies in standards-based pre-K–12 edu-

cation, as well as inquiry-based undergraduate education; (3) integrating technology to enrich the pre-K–12 educational enterprise with emphasis on creating and modifying effective tools to enrich teaching and learning; and, (4) strengthening collaborations and partnerships between developers of learning technologies and education experts. Programming efforts will continue to focus on several critical issues: the absence of science and mathematics content for delivery by hardware/software systems; barriers afforded by the instructional workforce; and other factors that affect large-scale, systemic implementation (e.g., education policies, resources).

MAJOR RESEARCH EQUIPMENT ACCOUNT

*Question*. Please provide your plans for the next five years for this account, including what projects you plan to fund and what dollar levels.

Answer. The fiscal year 1998 Budget Request for the MRE account includes $85 million for four projects: completion of construction funding for Laser Interferometer Gravitational-Wave Observatory ($26 million); initial funding for the design and development phase of the Millimeter Array ($9 million); construction of the Polar Cap Observatory ($25 million); and initial requirements for modernization of South Pole Station ($25 million). In addition, there are several potential projects for future consideration.

NSF senior management are currently conducting an annual review of MRE candidates to determine which projects may be considered for funding in fiscal year 1999 and which are more appropriate for later consideration. Decision factors include scientific merit, technical readiness, quality and comprehensiveness of the planning effort, impact on other programs, balance and availability of funds. Several projects are in the preliminary stage, with planning, design, construction and cost estimates still being assessed. With the exception of the Large Hadron Collider and continued work on South Pole Station, all of the other projects are at various stages in conceptual design.

Below is a brief description of some potential future projects—over the next five years and beyond—with preliminary cost estimates:

—*Large Hadron Collider (LHC)*.—The LHC will be constructed at the CERN Laboratory in Geneva, Switzerland by a consortium of more than 22 nations and will be the world's most energetic accelerator. Coupled to this device will be four particle detectors, including the two largest, most complex ever built, ATLAS and CMS. NSF support for the construction phase of the ATLAS and CMS projects, pending Congressional approval of U.S. participation in the LHC project, is expected to be $81 million.

—*South Pole Station*.—The Foundation is currently considering the recommendations of the U.S. Antarctic Program External Panel (the Augustine Panel) regarding modernization of the U.S. research station at the South Pole. Those recommendations outline the need to replace the station—for economic, safety and operational reasons—at a cost of approximately $125 million. The fiscal year 1998 Budget Request includes $25 million toward this modernization, leaving an anticipated balance in the range of $100 million for fiscal year 1999 and beyond.

The following potential projects are in a more preliminary planning phase than those cited above:

—*High Altitude Research Platform (HARP)*.—HARP is a specially-instrumented high altitude mid-sized jet with range, altitude and communication capabilities that will significantly advance national capabilities in airborne research and provide measurement access over the entire globe. The acquisition cost, which includes airframe, structural modifications, research modifications, and instrumentation, is estimated at about $60 million.

—*National Network for High Performance Seismic Simulation (NHPS)*.—NHPS is a geographically distributed set of facilities linked by an efficient communication network, for research in earth sciences, geotechnical and structural engineering, and earthquake-related social science that contributes to earthquake hazard mitigation. The preliminary projected total cost for developing new facilities, upgrading existing facilities, integrating them and developing one or several user networks is estimated to be in the range of $100 to $120 million.

—*Millimeter Array (MMA)—Construction Phase*.—The MMA will be the world's most sensitive, highest resolution, millimeter-wave telescope. Following the proposed three-year design and development phase of MMA (requested for funding in fiscal year 1998), NSF will decide whether to proceed to the capital construction phase. Costs for construction are estimated to be approximately $200 million. International or other agency participation will be sought.

—*Coastal Research Vessel*.—A coastal research vessel is planned as a replacement for one or more existing aging research vessels. Interdisciplinary studies of coastal systems require the involvement of a large contingent of scientists engaged in a diverse mix of activities, including the rapid sampling of conditions for extended periods. The diversity of measurements, experiments, and over-the-side operations necessary for the conduct of science require extensive laboratory and deck space, usually not available on the current coastal research ships. Estimated costs for construction are in the range of $20 million to $30 million.

—*Ocean Drillship*.—The Ocean Drilling Program (ODP) is a multinational program, consisting of a total of seven international partners involving nineteen nations. Continued use of the Drilling Vessel (DV) JOIDES Resolution as the primary facility for ODP coring and logging is anticipated through at least 2003. In ongoing discussions with Japan and European ODP partners on future drillship requirements, possible alternatives have been identified including a major refitting of the DV JOIDES Resolution. The U.S. will be expected to help support the maintenance of ODP drillship capabilities. If this alternative were to be pursued, the total estimated cost is in the range of $50 million to $70 million.

—*National Spallation Neutron Source (NSNS)*.—The U.S. has fallen behind the European scientific community in the past twenty years in the availability of neutron sources and instrumentation. No single agency is able to take full responsibility for a facility of this kind. The proposal calls for a joint partnership between DOE and NSF. DOE would construct the proton accelerators and one fully instrumented target area at a cost of approximately $1 billion. NSF would assume the responsibility for the second fully instrumented target area. At the present time, the estimated cost would be approximately $150–175 million.

This list provides an indication of the ongoing planning for major research equipment. Other projects are likely to be brought forward—such as an ocean floor observatory system to understand processes in the ocean crust—as planning continues and as needs for forefront facilities are defined.

*Question*. What mechanisms do you have in place to discourage cost overruns in major equipment projects?

Answer. Projects funded through the Major Research Equipment (MRE) account contain award conditions which allow NSF to monitor the performance of the organizations that construct, manage and operate research facilities, and to oversee the expenditure of federal funds. Increasingly, large projects are being undertaken on a "build-to-cost" basis that controls cost overruns. In the current MRE program, cost overruns are to be borne within the sponsoring organization within NSF, a policy that focuses additional attention by staff to this issue. The NSF Director names an NSF staff person to be responsible for monitoring progress during the construction phase of a MRE project and for advising on the transition from construction to operations. The responsibility for project management typically resides in the cognizant disciplinary division or office, with assistance provided as necessary from other parts of the NSF. Status reports on the progress of MRE projects are provided by the responsible directorate or office at least semiannually to the Chief Operating Officer, the Director and to the National Science Board (NSB).

At its February 1997 NSB meeting, the NSB Committee on Programs and Plans received status reports on all major facilities construction projects. At the present time, internal discussions with staff about the oversight of large facilities are being conducted by the Chief Operating Officer. Recommendations will be made to the Director based on these discussions.

NEXT GENERATION INTERNET

*Question*. What is NSF's role in the interagency Next Generation Internet project? What are the expected outcomes for this project.

The Next Generation Internet project has three closely-related goals:

1. To connect about 100 leading research universities and labs with an advanced network fabric that provides an increase of 100 fold in end-to-end performance and serves as a testbed for the development of future Internet technologies,

2. To develop, test, and model future network technologies that provide differentiated qualities of service, enhanced reliability and security, and other capabilities required for advanced applications of the Internet, and

3. To develop and model advanced applications that better support important national objectives in research, education, medicine, crisis management, commerce, etc.

NSF will play an important role in all three facets of the NGI:

1. NSF's ongoing "high-performance connections" program will play a central role in the first NGI goal by interconnecting about 100 leading universities and their research partners to NSF's existing VBNS, the very high-speed backbone network service. (The VBNS recently has been selected as the primary network of "Internet 2," a university-based consortium committed to the development of advanced networking to support future modes of education.)

2. NSF will continue to fund research in network technologies in a coordinated effort with DARPA and other agencies.

3. NSF will direct more than $200 million in new and existing funding to the development of a wide variety of advanced network applications in the cross-foundation Knowledge and Distributed Intelligence (KDI) program.

Nearly all programs in NSF are expected to substantially benefit from the deployment of the advanced network fabric of the NGI, and some (e.g., the PACI partnerships) depend by design on NSF's success in the connections program.

LIFE IN EXTREME ENVIRONMENTS (LEXEN) INITIATIVE

*Question.* The NSF budget includes funding for an initiative called "Life in Extreme Environments (LExEn)," an exobiology program that is one of the components of the Administration's Origins Initiative. While $35.9 million is requested for this program in 1998, it appears that little of this investment represents new money. Given the Administration's emphasis on this particular initiative, including the meeting which the Vice President hosted last fall, why are there no additional funds proposed for it in 1998?

Answer. Recent discoveries of the incredible diversity of microbial life here on Earth, the development of molecular techniques for analyzing genetic material, discoveries concerning volcanism on our ocean floors, oceans on Europa, and extra-solar planets around other stars, have revolutionized our perceptions of life and the potential for life in extreme environments.

To capitalize on these discoveries, the National Science Foundation invested $6 million in fiscal year 1997 in a special competition focused on the development and application of techniques, technologies and methodologies associated with the Life in Extreme Environments (LExEn) initiative. Together with related research, the total effort for the LExEn initiative accounted for more than $35 million in fiscal year 1997.

We estimate that our investment in the LExEn Activity will continue to exceed $35 million in fiscal year 1998. This estimate is based upon support that individual programs within the Foundation expect to devote to the LExEn Activity. NSF believes that the research accomplished at this funding level, along with increased support for specific activities not included under the LExEn umbrella, will contribute significantly to the ORIGINS initiative.

NSF PARTICIPATION IN "ORIGINS"

*Question.* We understand that NASA, the Department of Energy (DOE), and NSF are discussing the consideration of an interagency Origins program, with NSF taking a broader role than simply to support the LExEn initiative, but to include a significant role in the use of ground-based optical observatories to help in the detection of planets and determine the origins of the universe. We further understand that NSF alone has been unwilling to sign this proposed agreement. Can you explain why the Foundation has not agreed to support this interagency effort and when we might see a change of heart from the leadership of the Math and Physical Sciences Directorate to support a significant and meaningful role for NSF in Origins?

Answer. NSF's support for "Origins" research includes continued funding for the Life in Extreme Environments (LExEn) initiative, increased funding for a number of research activities to be supported collaboratively with NASA or the Department of Energy (DOE) under the "Origins" umbrella, support for the Design and Development phase of the Millimeter Array, and support for the Gemini Telescopes. Together, these constitute a much broader role for NSF than simply maintaining support for the LExEn initiative.

NSF is unaware of any proposed interagency agreement concerning "Origins" but is participating actively with NASA and DOE in developing a brochure describing the activities of the three agencies concerning "Origins" research. NSF regards the suite of activities described above to constitute a very significant and meaningful role for NSF in "Origins". In fact a major portion of NSF's Division of Astronomical Sciences' efforts are focused already on questions related to the origin of the Universe. Within the next two years, the upgraded Arecibo Telescope, the new Green Bank Telescope, and the Gemini Telescope in Mauna Kea will become operational, adding immensely to the capabilities for exploring these questions.

OPTICAL ASTRONOMY PARTICIPATION IN "ORIGINS"

*Question*. Does NSF's outyear planning estimates (fiscal year 1999–2002) for the MPS Directorate assume any funding in optical astronomy for the Origins Initiative over and above the base funding for astronomy? If so, please explain. If not, please advise the Committee on why this has been given relatively lower priority relative to other NSF programs, particularly within MPS.

Answer. NSF's outyear planning for optical astronomy does assume funding for "Origins" over and above the base funding for astronomy. This includes (1) increased participation in the Life in Extreme Environments (LExEn) initiative, and (2) a joint effort with NASA to support comparative investigations of planetary atmospheres. Probably the most important development in NSF's efforts in optical astronomy in the outyears will be the completion of construction of the Gemini Telescopes and the beginning of Gemini operations, first at Mauna Kea in 1998 and at Cerro Pachon in Chile in 2000.

SUBCOMMITTEE RECESS

Senator BOND. There being no further business to come before the subcommittee, we stand recessed.

[Whereupon, at 11:10 a.m., Tuesday, April 22, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

# DEPARTMENTS OF VETERANS AFFAIRS AND HOUSING AND URBAN DEVELOPMENT AND INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1998

---

**THURSDAY, MAY 1, 1997**

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, DC.*

The subcommittee met at 2:23 p.m., in room SD–124, Dirksen Senate Office Building, Hon. Christopher S. Bond (chairman) presiding.

Present: Senators Bond, Mikulski, and Harkin.

Also present: Senator Faircloth.

## DEPARTMENT OF VETERANS AFFAIRS

### OFFICE OF THE SECRETARY

**STATEMENT OF HON. JESSE BROWN, SECRETARY**

**ACCOMPANIED BY:**

**KENNETH W. KIZER, M.D., M.P.H., UNDER SECRETARY FOR HEALTH**
**D. MARK CATLETT, ASSISTANT SECRETARY FOR MANAGEMENT**
**STEPHEN L. LEMONS, ACTING UNDER SECRETARY FOR BENEFITS**
**JERRY BOWEN, DIRECTOR, NATIONAL CEMETERY SYSTEM**
**KATHY E. JURADO, ASSISTANT SECRETARY FOR PUBLIC AND INTERGOVERNMENTAL AFFAIRS**
**WILLIAM MERRIMAN, DEPUTY INSPECTOR GENERAL**
**EDWARD SCOTT, ASSISTANT SECRETARY FOR CONGRESSIONAL AFFAIRS**
**SHIRLEY C. CAROZZA, DEPUTY ASSISTANT SECRETARY FOR BUDGET**
**ROGER BAUER, VICE CHAIRMAN, BOARD OF VETERANS' APPEALS**
**MARY LOU KEENER, GENERAL COUNSEL**
**EUGENE BRICKHOUSE, ASSISTANT SECRETARY FOR HUMAN RESOURCES AND ADMINISTRATION**
**DENNIS DUFFY, ASSISTANT SECRETARY FOR POLICY AND PLANNING**

#### OPENING STATEMENT OF CHRISTOPHER S. BOND

Senator BOND. Good afternoon. The committee will come to order. Let me apologize again for the schedule of the Senate. We had a vote that began just after 2 p.m., and I wanted to make that vote so that I could come back and start as soon as possible.

Senator Mikulski, who has been here, asked us to go ahead. I will make sure to submit to her a full copy of my written statement

so she will not miss anything, and we are very pleased today to welcome on behalf of the Department of Veterans Affairs on the fiscal year 1998 budget request Secretary Jesse Brown and other VA officials.

The Department of Veterans Affairs appropriations request totals about $40 billion, including $21.3 billion in mandatory programs and $18.7 billion in discretionary programs. Discretionary appropriations would decrease in fiscal year 1998 by $225 million, while mandatory programs would increase by about $1 billion.

In general, VA's budget request is modest, and the goals presented are worthy, albeit ambitious. The budget reflects continued progress in overhauling VA service delivery without a massive price tag. However, there are a number of important concerns raised by the budget request.

The largest discretionary program in this subcommittee's jurisdiction, and one of our highest priorities, is veterans' medical care, for which no increase has been requested. In fact, under the President's budget VA medical care actually would be reduced by $54.6 million owing to some accounting changes, but in essence the proposed budget would freeze VA medical care at about $17 billion in fiscal year 1998.

In order to finance the increase VA believes is necessary to cover inflation, payroll, and other increases, the administration is proposing the Department be authorized to retain third-party collections and veterans copayments totaling about $468 million after deducting administrative costs.

Mr. Secretary, the administration's proposal is a great gamble, with veterans' medical care at stake. I am concerned that, while it provides an incentive for VA to improve cost recovery, and that is not a bad idea, the concept is part of a large and, frankly, controversial package of proposed user fees for a number of departments.

Should VA's proposal not be enacted as part of the budget reconciliation legislation, I really question whether the Veterans Health Administration could avoid making large reductions in staff and undertaking other major cost-cutting measures if no increase in discretionary appropriations were to be provided.

We have to acknowledge, and we are delighted to acknowledge, that the VA has made significant and impressive changes to its health care system in the last 2 years. The system has been completely restructured. Major improvements have been put in place and are continuing to be implemented, such as enrolling patients in primary care, eliminating redundancies and unnecessary management layers, increasing the use of ambulatory care, and implementing bulk purchasing.

These changes have enabled the VA to redirect millions of dollars to patient care. In just one of VA's 22 networks savings of $130 million have been made this year alone. VA has actually managed to do more with less, a real success story of which you and your team can rightfully be proud.

In addition, VA has overhauled its allocation methodology, vastly improving the fairness and appropriateness with which resources are allocated to facilities. While some fine tuning may be needed, the new system is a tremendous step forward.

The changes have occurred in large part due to the leadership and vision particularly of Dr. Ken Kizer. He deserves accolades for bringing these important and long-needed changes about.

Before Dr. Kizer's arrival at the VA, the idea of such dramatic changes would have been considered heresy, and Dr. Kizer I hope still you are not being tried for heresy in the Department, but I am afraid a funding freeze would do more than force efficiencies. A funding freeze could have the effect of eviscerating some of the improvements which are now underway.

The American Legion has advised us that the flat appropriations levels recommended in the fiscal year 1998–2002 medical care budget proposal are far beyond what the system can absorb without jeopardizing the quantity, quality, timeliness and access to care.

Mr. Secretary, if you recall, at last year's hearing you stated VA could not operate on flat funding. You said it would force VA to eliminate about 60,000 physicians and deny care to about one million veterans and would force you to close the equivalent of 41 hospitals. We raised questions about that at the time, and I still have some questions about the adequacy of the budget request before us.

In addition, the President's budget is predicated on the assumption that VA can achieve a 30-percent reduction in per-patient cost, a 20-percent increase in the number of patients served, a 10-percent increase in revenues from nonappropriated sources by the year 2002. It would be a great feat if you could do it. Again, I am from Missouri. You are going to have to show me.

PREPARED STATEMENT

VA's 30–20–10 goal is based on enactment of the cost recovery proposal, and the Medicare subvention proposal, both of which are controversial and problematic. In addition, we do have some concerns about whether VA's projections are overly optimistic. GAO has submitted testimony for the record today, and unlike most GAO reports, it notes with approval many of the changes that have been undertaken, and I again commend you on the favorable report from an agency not always prone to give favorable reports.

[The statement follows:]

PREPARED STATEMENT OF STEPHEN P. BACKHUS

Mr. Chairman and Members of the Subcommittee: We are pleased to contribute this statement for the record for the Subcommittee's deliberations on the President's 1998 budget request for the Department of Veterans Affairs (VA) health care system. With a 1997 medical care appropriation of $17 billion and a declining veteran population, VA faces increasing pressure to contain or reduce spending as part of governmentwide efforts to achieve a balanced budget. Last year, we reported that VA's health care system had the opportunity to reduce its operating costs by billions of dollars over the next several years.[1]

VA's 1998 budget proposal requests a medical care funding level of $17.6 billion, consisting of an appropriation of almost $17 billion and a legislative proposal to retain insurance payments and other third-party reimbursements.[2] VA characterizes this as the first step in a 5-year plan to reduce its per patient cost by 30 percent,

[1] VA Health Care: Opportunities for Service Delivery Efficiencies Within Existing Resources (GAO/HEHS–96–121, July 25, 1996) and VA Health Care: Opportunities to Increase Efficiency and Reduce Resource Needs (GAO/T–HEHS–96–99, Mar. 8, 1996).

[2] This includes $123 million of administrative costs for third-party insurance recoveries and $68 million of reimbursements for veterans compensation and pension examinations.

increase patients served by 20 percent, and finance 10 percent of its expenditures using nonappropriated revenues by the year 2002. VA proposes to use appropriations of about $17 billion over the next 5 years and supplement this with increases in third-party reimbursements that are estimated to be $1.7 billion in 2002.

Our comments focus on VA's 5-year plan, including the outlook for attaining the stated targets and the potential effects on veterans and others. In addition, as requested by the Subcommittee, we also offer our preliminary observations on VA's progress on two major initiatives: developing a method to more equitably allocate resources and establishing a decentralized management structure to more efficiently and effectively deliver services. We plan to provide the Subcommittee more detailed information on these two initiatives at a later date.

Our comments on VA's budget proposal are based on past and ongoing work to assess operating policies, procedures, and practices of VA hospitals and clinics.[3] We spoke with hundreds of VA officials and examined a wide array of documents, including VA's budget submission, annual reports, and studies done by VA's Office of Inspector General and others. Our comments on VA's decentralized management and resource allocation initiatives are based on information obtained from discussions with officials at headquarters and seven networks as well as a review of documents they provided.

In summary, while VA's budget goals may be attainable, they also carry implications such as limited deficit reduction contributions and potential risks to low-income, uninsured veterans. Achieving increased efficiency is not contingent on either increases in patients served or resources. VA's ongoing efforts to restructure its health care system could yield billions of dollars in savings during the next 5 years. A large part of these savings would be realized through more efficient use of its workforce, which will allow the existing patient base to be served with fewer employees. In fact, sufficient savings could be generated to afford VA an opportunity to increase patients served without new resources or increase its contribution to deficit reduction. Furthermore, VA can significantly decrease its reliance on appropriated resources by using its existing authority to sell excess capacity to help other federal agencies meet their beneficiaries' health care needs.

VA's proposal to generate billions of dollars in new revenue to serve 20 percent more patients intensifies VA's direct competition with the private sector and potentially leaves low income, uninsured veterans vulnerable. VA may be able to attain its revenue goals only by attracting thousands of new users who have higher incomes or public or private insurance. And such new VA users are likely to be drawn from private providers who may see their revenue base erode as patients shift to VA care. Moreover, VA may spend unreimbursed resources on these veterans that could reduce the availability of resources for low-income, uninsured veterans.

VA also faces a difficult challenge as it takes steps to implement a new resource allocation method to improve veterans' access to VA care and a decentralized management structure to improve resource utilization. These initiatives promise improvements in equity and have stimulated significant changes in efficiency. However, VA's challenge will be to adequately monitor these changes to identify and correct unintended effects such as those that limit equity of access.

## BACKGROUND

VA's role in providing for the health care needs of veterans has evolved over time. During its first 50 years, VA predominantly served veterans who had disabilities caused or aggravated by military service and other low-income, uninsured veterans in need of a health care safety net. Over the past 10 years, VA has also served higher income and insured veterans with nonservice-connected conditions. Over time, however, VA's patient base has been shifting from serving primarily veterans with service-connected conditions to those without service-connected conditions. Currently, VA operates over 750 facilities, including 173 hospitals and over 400 outpatient clinics. These facilities serve 2.6 million of the nation's almost 26 million veterans as well as about 300,000 nonveterans.

In 1995, to promote greater efficiency and services to veterans, VA created a new decentralized management structure, forming 22 Veterans Integrated Service Networks (VISN). These networks replaced the previous structure's four regions and expanded their authority. The VISN is now the basic budgetary and decision-making unit of VA's health care system and exercises management authority over VA facilities in its geographic area. This system of networks clearly places value on efficiency and customer service, and the networks are empowered to make a wide range of decisions regarding care delivery options. Under the recently enacted eligibility re-

[3] A list of related GAO testimonies and reports appears at the end of this statement.

form legislation (Public Law 104–262), for example, networks can contract with a broader range of private providers to purchase services at prices lower than VA's costs and generate revenue by selling excess services. In April 1997, VA implemented the Veterans Equitable Resource Allocation (VERA) system to allocate medical care appropriations among the 22 VISN's. VERA is intended to improve the equity of resource distribution throughout VA's health care system.

EFFICIENCY SAVINGS NOT DEPENDENT ON INCREASED NUMBER OF VETERANS SERVED

Last year, we testified that VA could save billions of dollars over the next 7 years through improved efficiency. As noted before, the Congress subsequently gave VA the two additional tools-eligibility reform and expanded contracting authority—that VA said were key to the success of its efforts to increase efficiency. With these tools, VA can help veterans prevent costly hospital admissions and access lower cost services, regardless of where veterans reside. VA's 1998 budget request, however, suggests that VA will be able to achieve 30 percent efficiency savings over the next 5 years only if it has the additional resources to serve 20 percent more patients.

Over the past 18 months, VA has taken aggressive steps to change the way it operates to reduce costs and improve services to veterans. These initiatives are expected to save billions of dollars by avoiding unnecessary expenditures. Most of the initiatives involve a resizing and more efficient use of its workforce, which accounts for over $10 billion of VA's medical care budget. For example, VA is shifting patient care from inpatient to outpatient settings as well as reducing average lengths of inpatient stays. It is also consolidating management and clinical services of nearby hospitals to reduce costs. Moreover, VA is exploring opportunities to contract with other health care providers for services at costs lower than VA's.

These restructuring efforts should save billions of dollars without attracting new users as the following examples indicate:

—VA established a pre-admission screening process for hospitals that, if effectively implemented, could save $8.4 billion over the next 5 years.

—VA integrated the management of two or more nearby facilities in 26 different locations, which should result in savings of $230 million over the next 5 years.

—VA shifted substance abuse treatment from an inpatient to an outpatient setting in one service location, which is expected to result in savings of $10 million over the next 5 years.

Currently, VA has teams exploring additional opportunities for streamlining operations and reducing workforce needs. Many of these teams are identifying ways to use lower cost methods for delivering services within individual facilities. For example, many facilities are

—reducing patient bed-days of care, including one location that would close seven medical wards and generate potential savings of almost $50 million over the next 5 years, and

—shifting inpatient surgeries to ambulatory settings, including one location that shifted enough workload among facilities to close two surgical wards and potentially save over $15 million during the next 5 years.

VA also has many teams exploring ways to consolidate services at nearby facilities. Such actions should result in significant savings over the next 5 years as shown by the following examples:

—Facilities in one service area are planning to integrate eight pathology and laboratory medicine services into a single business unit with two central laboratories. This integration is expected to save about $10 million over the next 5 years.

—Facilities in another area are exploring ways to consolidate small purchases into one location, which is expected to save over $20 million during the next 5 years.

Additional savings opportunities could be available in later years from the closing of hospitals whose workloads may be shifted to nearby hospitals that have sufficient unused capacity to efficiently and effectively meet veterans' needs. For example, closing a facility with about 300 beds could save over $100 million in overhead costs alone during a 5-year period.

EFFICIENCY SAVINGS COULD PROVIDE OPPORTUNITIES TO SERVE MORE VETERANS WITHOUT ADDITIONAL RESOURCES

VA could expand its current patient base if its efficiency savings exceed payroll and other cost increases. These costs are expected to be about $637 million in 1998 and to increase by a rate of about 4 percent a year over the next 5 years.

The effect of VA's efficiency savings is to increase its purchasing power each year. For example, most of the savings are attributable to reductions in VA's workforce, which currently numbers about 189,000 full-time equivalents. VA may need to re-

duce its workforce by about 6,800 full-time equivalents to realize an annual savings of $637 million. This level of reductions would decrease VA's resource needs by comparable amounts in succeeding years. Thus, an annual appropriation of $17 billion could be sufficient to serve 2.9 million patients in 2002 if efficiency savings and cost increases approximate $637 million a year, on average. Moreover, VA could increase its patient base if its efficiency initiatives yield greater savings.

### ADDING RESOURCES FURTHER ENHANCES VA'S OPPORTUNITY TO SERVE MORE VETERANS

VA's 1998 budget proposes reinvesting all efficiency savings and using additional resources to expand its patient base. VA expects to add a total of $5.8 billion in new resources over the next 5 years (from public and private insurers and others), starting with $737 million in 1998 and increasing to $1.7 billion in 2002. VA expects that these additional resources will allow it to increase the number of veterans served by 587,000 which would increase its patient base from 2.9 million to 3.5 million in 2002.

If the targeted resource levels are attained, VA appears capable of attracting 587,000 new users by 2002. Recent expansion of VA's contracting authority and veterans' eligibility for care should facilitate creation of new access points, referred to as community-based outpatient clinics, which along with VA's efforts to improve accessibility of existing hospital-based clinics are likely to attract new workload.

For example, VA has opened or developed plans to open 86 new community-based clinics over the last 3 years. These clinics provide only primary care and refer veterans to VA hospitals for more specialized care. Last month, we surveyed the 12 clinics that had at least 2 years' operating experience and found that they had attracted 3,000 new veterans. These clinics experienced the largest growth in their initial year and smaller growth in subsequent years. VA estimates that the remaining 74 clinics will serve over 128,000 users a year but has not estimated how many will be new VA users. Twenty-two of the new clinics estimated that between 5 and 60 percent of the patients served will be new users, while the rest expected to serve no new users or were unsure whether new users would be served.

Although it plans to open many more clinics, VA told us that it is too early to estimate how many or where they will be located. Our analysis suggests that VA could need between 1,200 and 1,800 additional clinics to attract 587,000 new users if each clinic attracts between 250 and 500 new veterans. The first 12 clinics averaged 250 in their initial years. These clinics also appear to provide an affordable way for VA to attract new users.

In addition, VA's efforts to improve veterans' access to existing facilities should also attract new users. These initiatives include expanding primary care by extending operating times for hospital-based clinics to night and weekend hours as well as ways to reduce waiting times. For example, one hospital-based clinic reported enrolling 3,000 new veterans for care during the first year after having made such accessibility improvements.

### EXPANDING VA'S RESOURCE BASE POSES CHALLENGES

VA's revenue goal of $1.7 billion in 2002 includes estimated recoveries of about $902 million from private insurance, $557 million from Medicare, and $178 million from federal agencies and others. Attaining these targets may present a challenge as VA would probably have to attract thousands of new revenue-generating veterans. VA has provided, however, little information on the numbers of new veterans needed to meet revenue goals or how much of the revenue will come from inpatient or outpatient services. This lack of information creates uncertainties about VA's ability to achieve its revenue goals.

#### *Increasing Recoveries From Private Health Insurance May Be Difficult*

VA currently serves insured veterans and recovers some or all of its costs of care from insurers. Presently, VA returns all recoveries to the Treasury, except those needed to cover VA's billing and collection costs. In 1996, VA deposited $455 million into the Treasury and used $119 million for administrative costs. VA's recovery of $574 million represents a decline in recoveries from 1995, despite an increase in the number of users.

VA's ability to increase future recoveries from its current insured patient base is uncertain for several reasons:

—Veterans are increasingly covered by health maintenance and preferred provider organizations from which VA generally cannot recover.

—As an increasing proportion of VA users become eligible for Medicare, their private health insurance becomes secondary, so potential recoveries drop.

—As VA shifts from inpatient to outpatient settings, insurance recoveries decrease and the cost of recovery increases.
—VA found that Medigap insurers have been paying VA too much, which will result in decreased future recoveries and refunds of about $150 million a year.
—VA's authority to recover from private health insurance for care provided to service-connected veterans for non-service-related conditions expires September 30, 1998.

As a result, to meet its revenue projections of $902 million from private insurance, VA will probably have to focus its marketing efforts on attracting veterans with fee-for-service private health insurance. In addition, the Congress would need to extend VA's authorization to recover for certain services provided to service-connected veterans.

VA officials told us that they do not know how many veterans in their 2.9 million patient base have insurance or how many insured veterans receive billable care. This lack of information on key elements affecting its projections creates considerable uncertainty about the number of new insured users it would need to attract in order to generate its target revenues.

*Attaining Medicare Recovery Target May Be Difficult*

VA proposes to collect about $557 million from Medicare in 2002 for services provided to about 106,000 additional higher-income veterans who are covered by Medicare. VA currently attracts only about 1 out of every 100 higher-income Medicare-eligible veterans—about 41,000 veterans in 1992. It thus appears questionable whether VA will be able to attract an additional 106,000 higher-income Medicare-eligible veterans by the year 2002.

VA expects to recover from Medicare, on average, about $5,300 for each of the 106,000 additional Medicare-eligible veterans it expects to serve in 2002, a target amount that seems achievable based on average Medicare spending levels per patient nationwide. However, it may be difficult for VA to achieve this collection rate if Medicare-eligible veterans use primarily VA services that are not covered by Medicare, such as prescription drugs, inpatient psychiatric care, and long-term nursing home care. Our assessment of Medicare-eligible veterans' use of VA services in 1994 suggests that most of these veterans use VA, at least in part, for services not covered by Medicare.[4]

*Increasing Recoveries From Other Sources Appears Attainable*

VA proposes to collect $178 million in 2002 through sales of excess services to federal agencies, affiliated medical schools, and others. This amount represents over a 300-percent increase over VA's collections of $43 million in 1996.

Since 1966, the Congress has expanded VA's authority on several occasions to sell excess services in an effort to encourage VA facilities to generate revenues in addition to those appropriated. Over the last 5 years, VA's sales have increased by about 37 percent, with most sales to the Department of Defense (DOD) and affiliated medical schools. Last September, the Congress took another step to expand VA's ability to generate revenue by authorizing VA to sell excess health care services to any health care plan, insurer, or other provider.

VA could meet or exceed its goal of $178 million in 2002 if it markets its excess capacity to other federal agencies. DOD and VA reached agreement in 1995 that VA can provide health care services to active duty and retired members of the military and dependents enrolled in DOD's TRICARE program. While some VA facilities have become TRICARE providers, most have not. Similarly, few VA facilities have generated revenue by serving beneficiaries of other federal agencies, such as the Indian Health Service and the Bureau of Prisons, even though these agencies have expressed interest in buying VA's excess services.

EXPANDING VA'S RESOURCE BASE MAY PLACE SOME VETERANS AND OTHERS AT RISK

Over the last 25 years, VA has served an increasing number of veterans without service-connected conditions, generally those low-income veterans in need of a health care safety net. During the last 10 years, VA has also served higher-income and insured veterans with its resources that were in excess of those needed to provide care to service-connected and low-income veterans.

Allowing VA to retain nonappropriated revenues may change VA's perspective. This is because the veteran population is, in effect, likely to represent two distinct groups—non-revenue-generating veterans and revenue-generating veterans. Within this later group are several potential target populations: privately insured veterans;

[4] Veterans' Health Care: Use of VA Services by Medicare-Eligible Veterans (GAO/HEHS–95–13, Oct. 24, 1994).

Medicare-eligible veterans; higher-income veterans; and higher-income, privately insured, or Medicare-eligible veterans.

*Non-Revenue-Generating Veterans May Be at Risk of Having Access Limited*

VA may encounter difficulty attaining its revenue goals unless a significant number of new users have higher incomes or insurance. This could create a strong incentive for VA to market services to attract revenue-generating rather than non-revenue-generating veterans. This incentive could manifest itself in several ways, including where VA decides to locate new community-based outpatient clinics. For example, VA recently proposed locating a community-based clinic in a homeless shelter that VA expects could attract 2,040 new users in need of VA's safety net and therefore not likely to generate revenue. By contrast, VA has also proposed opening a new clinic in one of the country's more affluent counties. While the clinic is intended to improve access for current users, it is also expected to attract patients who could ultimately generate revenue.

*Non-VA Providers May Be at Risk of Losing Workload*

Marketing VA services to generate revenue has the potential to draw higher-income insured veterans from private providers who may then see their revenue base erode, depending on the number of patients who shift to VA care. If VA has to aggressively attract new users who are now receiving health care elsewhere, it will intensify the competition between VA and other state, county, and private providers for a larger share of a shrinking veterans' health care market.

VA's success in attracting revenue-generating patients will be likely to result in a shifting of health care costs from other financing organizations to VA and to exacerbate financial hardships for those competing health care providers that have excess capacities. For example, our interviews with 115 veterans using new access points last year revealed that 70 percent had Medicare coverage, 50 percent had private insurance, and 7 percent had Medicaid.[5] Most said they paid for their own primary care or used insurance coverage to obtain care at other providers before they switched to VA care.

*VA's Proposal Could Lower Contribution to Deficit Reduction*

VA's proposal to retain revenue generated from nonappropriated sources would also affect VA's contribution to deficit reduction. VA currently returns recoveries to the Treasury, which, in effect, reduces the government's cost of VA health care. For example, VA expects to return $438 million in 1997, which would reduce the amount of government resources needed to serve VA's patient base from its appropriated amount of $17 billion to $16.6 billion. By contrast, under VA's proposal it would retain insurance recoveries of $590 million in 1998, increasing the government's cost to finance VA health care to $17.6 billion, or $1 billion more than in the previous year.

In addition, VA's proposal to reinvest efficiency savings and use additional nonappropriated resources to increase the number of patients served could affect VA's contribution to deficit reduction. For example, VA would need an appropriation of $17 billion a year to serve 2.9 million users if savings equal payroll and inflation costs between 1998 and 2002. By contrast, VA may be able to contribute up to $1 billion more in 2002 toward deficit reduction if annual efficiency savings exceed cost increases by $200 million, on average, over the 5-year period and such excess savings are returned to the Treasury.

## NEW ALLOCATION METHOD AND DECENTRALIZED MANAGEMENT SHOW PROMISE BUT RISKS EXIST

VA is using a new resource allocation method and a decentralized management structure to address two long-standing issues: equity and efficiency. These initiatives are intended to improve the equity of veterans' access to care and produce cost savings.

*Allocating Resources Equitably Seems Achievable With New Methodology*

VA is using the Veterans Equitable Resource Allocation (VERA) system to allocate 88 percent of the $17 billion medical care appropriation to the 22 networks. This approach is a major shift away from VA's historical process for two reasons. First, it funds 22 networks rather than hundreds of facilities. Second, it allocates resources on the basis of costs per veteran served rather than on the basis of facilities' historical budgets. Funding networks sends a clear message that each facility is a

[5] VA's Health Care: Improving Veterans' Access Poses Financial and Mission-Related Challenges (GAO/HEHS–97–7, Oct. 25, 1996).

part of a larger regional enterprise charged, in part, with a mission of achieving equity of access. VERA recognizes that networks are the vehicles for fostering regional change, eliminating redundancies, and facilitating cooperation among medical facilities. Network officials have the authority to tailor their VERA allocations to facilities and programs, within the parameters set by national policy and guidelines, and to integrate services across facilities for equity and other purposes.

The goal of VERA is to provide networks with comparable levels of resources per veteran served. VA implemented VERA in an attempt to allocate patient care resources on the basis of differences in patient needs and regional differences in the price of their care. To do this, VERA classifies patients into two groups—basic care and special care—as a simple case mix adjustment. Basic care patients generally receive routine services that are less expensive than those received by special care patients. Special care patients often have complex or chronic conditions, such as spinal cord injury or end-stage renal disease, or require care in settings such as nursing homes. The VERA special care category also includes some adjustment for age to account for the higher medical demands of older population groups.

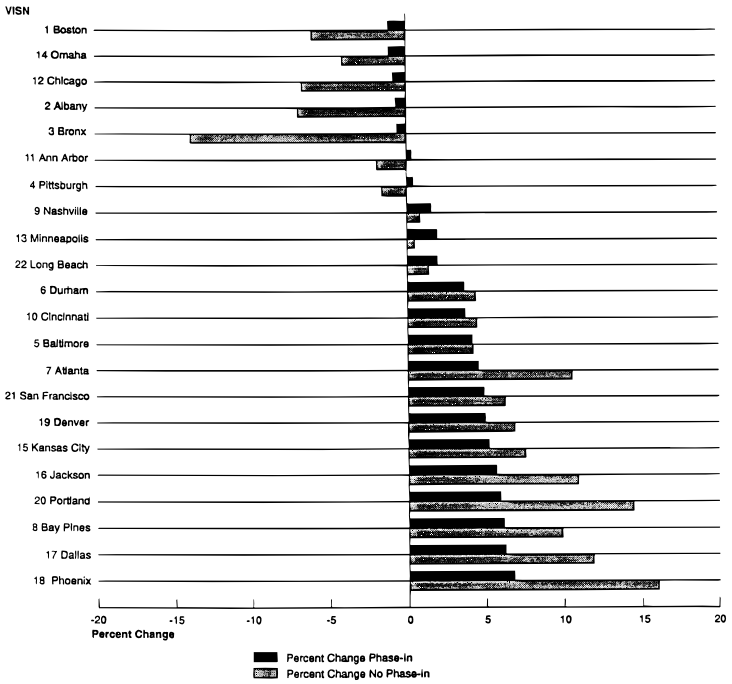
VERA allocates resources to networks based on two key components: network workloads and national prices. VA patient workloads are the estimates of the number of patients—basic and special—a network may serve. VA also calculates workloads for research support, education support, equipment, and nonrecurring maintenance. To determine a national price for each workload category, VERA divides national resources available by the national workload for that category. VERA allocates funds to a network by multiplying the network's workload numbers by their respective national prices. In addition, VERA adjusts for differences in regional labor costs for patient care.

To the extent that VERA allocates comparable levels of patient care resources for each veteran served, it provides incentives for networks to obtain these resources by increasing workload and decreasing costs. Networks that increase their patient workload relative to other networks gain resources under VERA; those whose patient workloads decrease relative to others lose resources. Networks that are more efficient, that is, have patient care costs below the national price, have more funds available for local initiatives. However, those with patient care costs above the national price (that is, less efficient networks) must increase efficiency to have such funds available. Thus, these incentives can result in cost savings and enhanced access for veterans.

VERA will not be fully implemented until fiscal year 1999. As a result, few resources will move among networks this year. (See fig. 1.) Five VISN's will receive fewer dollars and 17 will receive more.[6] VERA generally moves resources from the Northeast and Midwest, where per veteran costs have been higher than the national average, to the South and West where per veteran costs have been lower than the national average. If VA had fully implemented VERA this year, shifts in funding among the networks would have ranged from a reduction of 14 percent to an increase of 16 percent.

[6] In VA's Veterans Equitable Resource Allocation System Briefing Booklet, March 1997, VA shows that 6 networks will lose funds and 16 will gain funds in fiscal year 1997. However, VA excludes allocations for equipment and non-recurring maintenance. We included those amounts in our calculations to show the impact of VERA more fully. Neither we nor VA includes funds not allocated by VERA in these comparisons.

Figure 1: Changes Resulting From VERA Allocations (Fiscal Years 1996-97)




Note: These numbers include all six VERA expenditure categories: basic care, special care, research support, education support, equipment, and nonrecurring maintenance.

VERA, like any allocation model, has limitations. First, VERA may shift some resources inappropriately because it may not fully account for justifiable differences in regional cost variations. Although VERA adjusts for differences in regional case mix with its basic and special care patient categories and adjusts the allocations for differences in regional labor costs, it assumes that all the remaining differences are based on differences in efficiencies. While inefficiency is a major factor in these cost differences, other factors may play a role. For example, to the extent that veterans are sicker and need more health care services in different parts of the country, additional case mix adjustments may be necessary to fully explain regional cost differences. As we have said in the past, VA needs to provide more information on why costs vary throughout the country.[7] VA officials told us they plan to examine this further.

Another potential issue is that basing VERA on veteran-users may result in underallocation of funds in areas with low usage rates. If these rates result from past inequities in access to services, VERA may need to incorporate population-based data on veterans with highest priority for receiving services rather than relying solely on user data.[8] However, other factors, such as number of veterans with health insurance coverage, could also affect usage rates. Because adequate data were not available and VA wished to implement VERA as quickly as possible, it did not include population data in VERA. VA continues to examine the utility of doing so.

---

[7] Veterans' Health Care: Facilities' Resource Allocations Could Be More Equitable (GAO/HEHS–96–48, Feb. 7, 1996) and Department of Veterans Affairs: Programmatic and Management Challenges Facing the Department (GAO/T–HEHS–97–97, Mar. 18, 1997).

[8] Category A veterans have the highest priority for receiving VA health care services. Included in Category A are veterans with service-connected disabilities and those with service-connected disabilities whose income falls below certain thresholds.

VERA's incentives for lower per veteran costs and higher workload numbers could lead to unintended consequences if not properly monitored and corrected. In our discussions and visits with network and medical center officials, we found efforts under way to increase the number of veterans served. VA indicators for the first quarter of fiscal year 1997 generally show increases in the number of high-priority veterans (that is, Category A veterans) seen, and the increases for some networks are dramatic. We have concerns about whether the data accurately depict changes in workload. If the data are reliable, we are concerned that some networks may be inappropriately increasing their workload numbers to get more resources under VERA. For example, networks may be increasing workload by increasing the number of one-visit patients. This may be good primary or preventive care, or it could distort VERA allocations because only minimal services are provided to get credit for increased workload. In the short time since the indicators were published, however, we have been unable to determine the accuracy of the data and the services the new users received. VA officials told us that they recognize the importance of monitoring, identifying, and correcting unintended consequences. They said they will monitor data used in the allocation model, including workload increases, to ensure that they reflect changes at the network and medical center levels that are consistent with VA-wide policy and guidance.

Although VERA is a step toward to a more equitable allocation of resources, it does not specifically address equitable access to services. Networks are ultimately responsible for allocating funds to ensure that veterans have equal access to VA services. Each of the networks we contacted differs in how it allocates funds. One funds its facilities using a flat rate for each veteran-user. Another uses a combination of historical funding and negotiation with medical center management regarding new initiatives. Still another includes a feature in its allocation method that provides payment for each additional veteran served. VA officials told us they will examine these processes to ensure that different allocation mechanisms increase equity of access to services while addressing other national VA goals.

*Networks Have Made Significant Progress. But Decentralized Management Poses Oversight Challenges*

VA has taken a page from private sector organizations and empowered the network directors by delegating broad decision making authority over network budgets, facility staffing, health care delivery, and administrative functions. This has resulted in notable accomplishments at VA, including significant cost savings and improvements in access.

Decentralized decision-making at VA places a premium on effective headquarters guidance and monitoring of VISN activities. The challenge is to ensure that networks have a common understanding of VA-wide goals and legislative requirements while permitting them flexibility in how to achieve the goals. The challenge in monitoring network performance is to have reliable, appropriate, and timely indicators to ensure that problems are identified and corrected.

VA has provided guidance to managers and staff since the beginning of its reorganization. For example, the Under-Secretary for Health issued two volumes, "Vision for Change" and "Prescription for Change," delineating the type of organization he intended VA to become and the goals VA would strive to attain. Network and medical center staff told us that these publications and other communications, such as monthly meetings between network and headquarters managers, help develop their understanding of the structural and operational changes being made.

VA's new performance measurement process also plays an important guidance role by underscoring VA-wide organizational priorities. These measures include key indicators such as reduced bed-days of care and an increased percentage of surgeries performed on an ambulatory basis. The measures are the main components of the network directors' performance agreements. In networks we visited, medical center directors' performance agreements also included these measures. Medical center directors we contacted told us that network directors were exercising closer oversight of their progress in achieving VA-wide goals than had occurred under previous organizational structures.

Another strategy for reducing unnecessary variation has been the use of clinical practice guidelines. These are intended to enhance the quality and appropriate utilization of health care services by reducing variations in the way a health condition—for example, stroke—is treated. Networks are required to adopt 12 practice guidelines by the end of fiscal year 1997. They can choose from those identified by headquarters or other sources.

Providing national guidelines but offering networks discretion on when to follow these guidelines can create opportunities for local innovation but problems for national oversight. If discretion results in variation across the system, it will be dif-

ficult for VA to assess the impact of the guidelines. Network flexibility may produce tension between headquarters and networks. For example, officials in one network we visited told us that they preferred the American Medical Association guidelines to the national diabetes guidelines VA adopted.

Headquarters, network, and medical center officials told us that national guidance had not been sufficiently clear on whether to notify headquarters of significant program changes at the network level. They told us that they had not always been clear on what constituted "significant" changes. In a few instances, headquarters officials were not notified of impending network-initiated changes such as closure of a surgical program at a medical center. In May and September 1996, headquarters issued guidance for networks on prior notification and consultation with headquarters for network actions such as restructuring clinical services—including closures of major programs—and proposed changes to special emphasis programs such as those for spinal cord injury and prosthetics. VA has additional measures planned to ensure that headquarters is involved in significant network-initiated program changes.

Performance measures and standards developed by headquarters are the key components of VA's monitoring process. Headquarters holds network directors accountable for making progress toward VA goals by including measures and standards of performance in the directors' contracts. Headquarters lengthened its list of measures for fiscal year 1997; it now includes about two dozen indicators. In networks we visited, directors are monitoring medical centers on these measures as well.

## CONCLUDING OBSERVATIONS

VA's 1998 budget presents the Congress with a fundamental choice about the future course of VA health care, a choice that will have an effect on veterans, other health care providers, and efforts to achieve a balanced federal budget. In general, VA's proposal to reinvest all savings and generate additional nonappropriated revenues may intensify the direct competition between VA and other providers. By contrast, a decision to limit VA's retention of nonappropriated revenues will set VA on a course to becoming a more cost-efficient safety net for those non-revenue-generating veterans who have no other health care options.

Currently, there is insufficient information to understand the full implications of VA's budget proposal. VA states that the key elements of its proposal—namely, a 30-percent per patient cost reduction, a 20-percent increase in veterans served, and a 10-percent reduction of its reliance on appropriations—are inexorably linked but, in our view, this is not so. It seems plausible that any number of different scenarios could occur, depending on the magnitude of cost savings that VA will realize through its ongoing restructuring.

For instance, VA could operate as a health care safety net for several years, with an appropriation of about $17 billion or less, given VA's progress in identifying and implementing efficiency savings. Such efficiency savings could equal or exceed the potential nonappropriated revenues that VA estimates it can generate over the next 2 years if authorized to do so. For this reason, there appears to be time to obtain critical information from VA and others so that VA's budget proposal may be more clearly understood and fully debated. In this regard, several critical issues could be addressed, including the following:

—Should VA reinvest all efficiency savings to expand the number of patients served? If so, should VA's expansion be limited to certain target groups of veterans, such as service-connected, low-income, or uninsured veterans in need of a health care safety net?

—Should VA use nonappropriated revenue sources to help finance increased services to higher-income and insured veterans who have no service-connected conditions or continue relying solely on appropriated resources to finance increased services for service-connected and low-income veterans without service-connected conditions?

—Should VA reinvest savings in excess of those needed to maintain its current patient base in order to serve more veterans or should it return some or all of the excess savings as a contribution toward deficit reduction?

It would be less difficult to make such choices at this time if VA had provided a road map that clearly articulated (1) what operational changes would be needed to move along its newly proposed competitive course and (2) what consequences such competition would have for veterans and others. For example, additional information would be helpful about how different choices may affect (1) service-connected veterans and those in need of VA's safety net; (2) VA's existing hospitals, clinics, and other facilities; (3) VA's workforce; and (4) other health care providers.

Delaying a decision on VA's legislative proposals until such critical information is available—including a plan describing how the system will look and operate in 2002—may result in a better legislative decision on VA's budget proposal. It will also afford VA and the Congress time to better assess how VA's future resource needs may be affected by the new decentralized management and resource allocation initiatives.

VA's new resource allocation process and decentralized management structure hold promise for improved operational efficiencies and equitable access. Responding to VERA's incentives and VA's goals, local managers are already producing substantial savings and increasing the number of veterans served. VA, however, needs to continue examining how price and workload data are determined under VERA to improve equity of resource allocation. VA also needs to carefully monitor the impact of VERA's incentives on network and facilities performance. This is particularly important given the variation resulting from local managers' flexibility in the decentralized system. We believe that identifying and correcting problems is essential to the success of VA's proposed 5-year plan.

RELATED GAO PRODUCTS

Department of Veterans Affairs: Programmatic and Management Challenges Facing the Department (GAO/T–HEHS–97–97, Mar. 18, 1997).

VA Health Care: Improving Veterans' Access Poses Financial and Mission-Related Challenges (GAO/HEHS–97–7, Oct. 25, 1996).

VA Health Care: Opportunities to Significantly Reduce Outpatient Pharmacy (GAO/HEHS–97–15, Oct. 11, 1996).

VA Health Care: Issues Affecting Eligibility Reform Efforts (GAO/HEHS–96–160, Sept. 11, 1996).

VA Health Care: Opportunities for Service Delivery Efficiencies Within Existing Resources (GAO/HEHS–96–121, July 25, 1996).

VA Health Care: Challenges for the Future (GAO/HEHS–96–172, June 27, 1996).

VA Health Care: Efforts to Improve Veterans' Access to Primary Care Services (GAO/T–HEHS–96–134, Apr. 24, 1996).

VA Health Care: Approaches for Developing Budget-Neutral Eligibility Reform (GAO/T–HEHS–96–107, Mar. 20, 1996).

VA Health Care: Opportunities to Increase Efficiency and Reduce Resource Needs (GAO/T–HEHS–96–99, Mar. 8, 1996).

Veterans' Health Care: Facilities' Resource Allocations Could Be More Equitable (GAO/HEHS–96–48, Feb. 7, 1996).

VA Health Care: Issues Affecting Eligibility Reform (GAO/T–HEHS–95–213, July 19, 1995).

VA Health Care: Challenges and Options for the Future (GAO/T–HEHS–95–147, May 9, 1995).

VA Health Care: Retargeting Needed to Better Meet Veterans' Changing Needs (GAO/HEHS–95–39, Apr. 21, 1995).

Veterans' Health Care: Use of VA Services by Medicare-Eligible Veterans (GAO/HEHS–95–13, Oct. 24, 1994).

Senator BOND. But the VA does raise the question: "It appears that efficiency savings could equally equal or exceed the $700 to $850 million in potential nonappropriated revenues that VA estimates it could generate over the next 2 years" but we have not seen the hard data to back up the VA's 5-year projection of the 30-percent reduction in per-patient cost.

Nor have we been given justification for the increases projected in user fee collections. GAO believes that VA may have a tough time increasing recoveries from private health insurance for a variety of reasons outlined in their testimony.

Outside of the medical care proposal, we have serious concerns with the President's request for the VA research program. This program, which has served to bring the best physicians to the VA—and to keep them there—would be slashed 11 percent, or $28 million.

VA's research program has resulted in tremendous discoveries and improvements in health care to veterans and the general popu-

lation. It is an integral element to the veterans' health care system, and I am concerned about the implications of such a significant cut.

In a recent letter, the chief of the pulmonary disease section at the Kansas City VA hospital told me,

> The opportunity to conduct basic and clinical research relevant to my clinical interests was a major factor in my joining the VA staff and in remaining here. Only in the last year have I felt the need to explore other employment opportunities. One of the major factors in this decision has been the continuing decrease in funds available to support the VA research program.

Unfortunately, the President's budget would also cut the VA State home construction program by $6 million, a cost-effective program which results in the provision of vitally needed nursing home care to our Nation's veterans. There is almost $200 million worth of priority projects awaiting funding, so the President's proposal to cut this important program is very disappointing.

In my own State of Missouri, there are proposed projects in Cameron, Warrensburg, St. Louis, and Mount Vernon. I strongly support funding of these projects and will do my best to increase the budget over the President's proposal.

For the Veterans Benefit Administration, funding would be held close to fiscal year 1997 levels, factoring out the proposed shift of funds for the cost of medical examinations in connection with compensation and pension claims, formerly funded from the medical care account. VBA's staff would decline 543 FTE's, or 5 percent.

I am pleased to see that VBA's budget would allow for the implementation of reengineering efforts which are intended to result in significantly faster and less expensive compensation and pension claims processing by 2002. I am concerned, however, that productivity is not improving, and we have seen little data to back up VBA's assumptions that it could reduce processing time for an original compensation claim by more than one-half.

In addition, the National Academy of Public Administration, which has been studying the VBA claims processing system at this subcommittee's request, found fundamental problems in VBA's leadership and management structures, and a lack of capacity to undertake sound review, analysis, and evaluation of ongoing operations.

NAPA states in testimony, which, again, is provided for the record, and I assume you have received copies of it today:

> The NAPA study team has discerned little improvement in the VBA's ability to develop a clear prioritized business plan within which resources are allocated only to critical priorities, nor has there been any improvement in the staff's ability to plan and manage software projects. These management failures underlie a significant part of my concern about VBA's ability to meet its year 2000 needs and deliver on its BPR promises.

NAPA calls for strong and decisive leadership in VBA, strengthen strategic management capacities, consolidation of VBA's 58 regional offices, and other changes which are more profound than the business processing reengineering effort, which VBA seems to believe is the answer to its problem.

So while I am pleased the VA is proposing some changes, it would seem they are not sufficient to address the core management and organizational issues NAPA has identified.

We are pleased to see no new hospitals proposed and a relatively modest major construction request. The President's request would

fund two cemetery projects and the completion of a seismic correction project in Memphis. Perhaps the administration has come around to our view that major medical projects should be put on hold while the new Veterans Health Administration organization restructuring grows roots.

PREPARED STATEMENT

Clearly, Mr. Secretary, we have much to discuss this afternoon. I look forward to hearing your opening statement, but first it is my pleasure to turn to the distinguished ranking member, Senator Mikulski.

[The statement follows:]

PREPARED STATEMENT OF MILTON J. SOCOLAR

Mr. Chairman and Members of the Subcommittee: My name is Milton J. Socolar, and I am a Fellow of the National Academy of Public Administration. I am serving as the chair of the Academy's panel on claims processing at the Department of Veterans' Affairs. As I will describe in a minute, the Committee has tasked the Academy with studying and making recommendations on the claims process, and our study will be completed at the end of June. Because the panel has not yet fully reviewed the initial staff findings and recommendations, I am addressing you today in my own capacity as chair and am not speaking with finality on behalf of the panel.

THE SENATE'S TASKING TO THE NATIONAL ACADEMY

This Committee has expressed ongoing concerns about of the compensation and pension (C&P) claims adjudication and appellate process. In 1995, in its report accompanying the fiscal year 1996 Department of Veterans Affairs appropriations bill, the Committee expressed concerns about the backlog of claims at the Veterans' Benefits Administration (VBA) and shortcomings in its computer modernization effort. Congress tasked the Academy with making "* * * a comprehensive assessment of the Veterans Benefits Administration with particular emphasis on specific steps necessary to make claims processing more efficient and less time consuming." Specifically, your subcommittee instructed the Academy to evaluate: The computer modernization initiative and its link to strategic goals and priorities; efforts to reengineer the claims processing methodology; efforts to simplify rules and regulations; performance measures for critical program areas and systems modernization efforts; the regional office structure; and the roles of the Board of Veterans Appeals and the Court of Veterans Appeals.

You stated that the Academy needs to build on and not duplicate previous or ongoing evaluations. In 1996, you amplified the tasking in the subcommittee's report accompanying the fiscal year 1997 appropriations bill adding that the Academy "* * * should provide specific recommendations for comprehensive, strategic improvements to the organization and the many problems which have been identified."

THE CHALLENGE AHEAD

The VBA is under great pressure to improve the performance of its C&P program. Long-existing problems have been chronicled by a series of reports, the most recent of which is the December 1996 report to Congress by the Veterans' Claims Adjudication Commission (VCAC). The panel relied heavily on this excellent report in guiding its own research and recommendations. With the exception of those recommendations related to program policy, on which the panel takes no position, the panel accepts or takes even farther the VCAC's recommendations.

In thinking about VBA's administrative difficulties in delivering C&P benefits, it is well to keep in mind the size of the program and complexity of the process involved. Following are some complicating program imperatives:

1. VBA's C&P workforce must manage a "portfolio" of about 5.3 million service-connected disabilities, which is growing in volume and complexity, for over two million veterans.

2. In addition to statements filed by veteran claimants, corroborating or new evidence to support claims must be collected from numerous sources not controlled by VBA—the Department of Defense, VA hospitals for medical data and claim-specific

medical examinations, other federal agencies, private medical practitioners, and others.

3. Under the program's concept of rating disabilities in ten percent increments, assessing the degree of disability for many injuries and diseases often requires the exercise of sophisticated judgement complicated by the growing body of opinions from the Court of Veterans' Appeals (COVA).

4. VBA is required, if necessary, to assist each claimant in perfecting his or her claim which can contain many alleged disabilities.

5. The claim is kept open for the receipt, at any time up to final decision, of additional supporting evidence or evidence of additional entitlement.

6. Within a year after VBA's decision on a claim, the claimant may file a notice of disagreement to initiate the administrative appeals process, requiring additional consideration and processing.

It is also well to keep in mind that, despite delays occasioned by the foregoing, claimants to date have tended to formally appeal to the board of veterans' appeals (BVA) in a relatively small percentage of cases—less than five percent of VBA's decisions on compensation claims. Nevertheless, considering the overall large volume of cases handled, this small percentage translates into a significant number of cases. They clog the system, which results in backlogs and further delays in disposing of claims filed—from an average of three to as long as five years for a significant number of cases.

The department and VBA have been administering the C&P program within a narrow, insular perspective. VBA tends to address issues as they arise, very much on an ad hoc basis. Although there have been times when VBA has shown signs of a desire to raise C&P operations to new and more efficient levels, it has not yet succeeded in realizing the more important of its stated aims for improving service. In essence, VBA has been "administering" the C&P program; it has not been managing it.

Although VBA's problems have been tolerated to a degree through previous years, it is now essential, even critical, that it undertake and meet the management challenge to achieve greater efficiency and provide better service. Medical issues underlying many disability considerations now require deeper analysis to resolve. Harnessing the boon of advancing information technologies is enormously complex and difficult. With the arrival of judicial review in 1988, BVA is no longer the final arbiter of statutory obligations to claimants and both VBA and BVA must meet more stringent requirements as interpreted by COVA. Perhaps, most significant, funds to cover inadequacies will surely not be so freely available in the future as they have been in the past.

Briefly stated here—I will return to the point later in my statement—VA and VBA leadership must develop greater management capacity and discipline to meet future demands. VBA's leadership and management structures and systems do not embody essential analytic and planning capacities. With poor analysis and planning, it is small wonder that there is not sufficient discipline to carry out controlled implementation of approved initiatives. And finally, VBA must develop the capacity and will to do good review, analysis and evaluation of ongoing operations. Even though some regional offices (RO's) operate at high levels of performance, the VBA nationally operates in too permissive a manner with little accountability for the achievement of specific results across all 58 of its regions.

THREATS TO SERVICE

*Fixing the Year 2000 Problem*.—A good example of the consequences resulting from inadequate management structure and discipline is the risk that VBA was going to assume in resolving the critical "year 2000" computer problem embedded in its payment system. Should that problem not be resolved, VBA would not be able at the turn of the century to issue benefit checks to millions of veterans. Notwithstanding that computer expertise was clearly spread too thin and that its record of managing complex computer projects was poor, VBA was poised to simultaneously undertake (1) development of VETSNET to replace the existing payment system, (2) implementation of complex legislative changes into the system, (3) reprogramming of its benefit delivery network, (4) consolidation, at the department's behest, of the Hines and Philadelphia benefit delivery centers with the Austin automation center, while (5) also working on a number of programs to cure the year 2000 problem.

We became alarmed during our study over the disastrous consequences should VBA's risky approach fail, as well it might have. We met with deputy secretary Hershel W. Gober to point out the risks involved and explain our concerns. Subsequently, the deputy secretary changed the direction of VBA's approach to significantly reduce the risk to the payment system now and to support year 2000 oper-

ations. VBA has now initiated action to hire the necessary systems integration contract support, procure other resources and put in place the management required to sustain payment system operations and achieve year 2000 capabilities.

*Staffing Is Being Reduced By A Third While Workload And Other Resource Demands Are Rising.*—The fiscal year 1998 President's budget reduces resources by 1,335 full time equivalent (FTE) staff or 31 percent between fiscal year 1996 and fiscal year 2002. While recognizing the pressures for balancing the budget and that future VBA budget estimates may be revised, I am concerned that inappropriate reductions will only serve to make a bad situation worse, engendering the need for larger expenditures in the future.

We are exploring some questions we have about VBA's workload forecasting generally. A large percentage of these reductions is premised in fiscal year 1999 and beyond on the success of the business process reengineering (BPR) plan to change the way C&P claims will be processed. The C&P service bases its staffing estimates on a series of assumptions about programmatic and legal changes that will allow reductions while at the same time achieving ambitious timeliness and quality of service goals. These assumptions have not been evaluated in an operational setting, and pilots intended to test their validity, just now getting underway, will take up to 18 months to complete. Of particular concern are VBA's assumptions about future workload, projected levels of participation by veteran service organizations, and the benefits of information technology.

*Unmanaged Appellate Workloads In VBA Regional Offices May Reach Crisis Proportions.*—I am also concerned about growing appellate workloads in VBA RO's. Since the end of fiscal year 1995, the number of BVA remands pending in RO's increased by 69 percent to more than 23,000 and had been pending for an average of about a year. Over one-fourth of the cases pending in RO's are in appellate status.

VBA has not treated this workload as a nation-wide problem needing concerted attention. It has neither established 19 performance goals for processing this work nor regularly tracked progress in their accomplishment. I am concerned that, without adequate attention, the RO's will continue to focus on new and reopened claims and that appellate workloads and lead times will reach crisis proportions.

MAJOR CLAIMS AND APPEALS PROBLEMS CONTINUE TO DEGRADE SERVICE

Apart from these potential threats to program integrity, the VA continues to struggle with major problems that continue to degrade service.

*Regional Office Adjudication Decisions Are Too Slow And Not Well Enough Prepared.*—While showing some improvement in the last several years, processing time for claims continues to be far higher than the BPR goal of 60 days. The VBA continues to have difficulty making quality decisions early in the adjudication process, and quality remains a point of major concern and contention. The rate of remands by BVA peaked at a level of 50.5 percent of cases considered in fiscal year 1992, and has come down only slightly to 45.6 percent at present. The combined total of allowances and remands by the BVA peaked at 67.1 percent in fiscal year 1995 and is down to 62.6 percent at present, far higher than the BPR goal of 25 percent.

*Information Resources Management—Failure To Manage Effectively Has Led To Current Crises.*—VBA's has shown little ability to learn from a 1995 study by the CNA Corporation and a series of harshly critical GAO reports about problems in managing VBA's information resources. The study team has discerned little improvement in the VBA's ability to develop a clear, prioritized business plan within which resources are allocated only to critical priorities, nor has there been any improvement in the staff's ability to plan and manage software projects. These management failures underlie a significant part of my concern about VBA's ability to meet its year 2000 needs and deliver on its BPR promises.

VBA NEEDS TO DEVELOP MANAGEMENT CAPACITIES FOR MAKING MUCH NEEDED CHANGES

I was initially puzzled as to why the sustained criticism VBA has endured had not led to the reforms required for improving operations but have now concluded that the reason is two-fold. First, VBA is bounded by a culture that looks only to short-term needs without concern over long-term implications. Second, this short term outlook has led inevitably to the failure of leadership to develop capacities that are essential to the successful management of complex programs in a large organization. VBA has long felt that it could manage the increasingly complex adjudication and appellate process on the basis of past and existing organizational capacities and practices. While VBA staff and executives are dedicated and hard working, en-

lightened leadership and new approaches are critical to solving the organization's problems and significantly improving program service.

*The Institution Lacks Capacity For Strategic Management.*—VBA lacks the management capacities that would enable its leaders to define long-term direction and provide the resources to follow through. At the same time, it is leadership's function to see to it that those capacities are established and maintained at high levels of competence. These include: the capacity to plan, integrate and execute complex programmatic activities; the evaluative and information capacities to measure performance and hold executives accountable for results; and an annual plan, implementation, and review cycle to integrate all parts of the organization into a comprehensive operational effort to fulfill the VBA's goals.

*VBA Needs Strong, Decisive Leadership.*—Despite progress since 1996, the potential for a cohesive, well functioning leadership team is uncertain. The VBA strategic management committee (SMC), established in 1996, is a step in the right direction, but it lacks a clear purpose, a long-term agenda for change, an ability to integrate and oversee complex activities, and a clear vision of what strategic management means. Recent efforts to implement the government performance and results act (GPRA) and conduct BPR are laudable but insufficient.

There are also major gaps in clear lines of accountability within the leadership team, including a lack of clarity in staff and operational responsibilities between central office and field organizations. This is exemplified by assignment of responsibility for implementation of BPR, a quintessentially operational activity, to the C&P Service, nominally a VBA staff office without operational control. C&P lacks influence on the performance of the VBA area offices and RO's. Nor is there sufficient uniformity among the 58 regions and four area offices in their execution of central office direction. There are also numerous cultural short circuits to accountability. These include a bias against developing a systematic corporate information capacity and a reactive and decision-averse culture in which senior executives are reluctant to take tough action against a failing member. The VBA is a closed organization that has historically not systematically sought information for planning purposes from stakeholders or others outside of the organization.

### A FUNDAMENTALLY DIFFERENT CONFIGURATION OF FIELD OPERATIONS IS REQUIRED

VBA faces a compelling need to develop a fundamentally different way of delivering services in the field. The current structure of 58 RO's is difficult at best to manage with any uniformity of policy implementation, and such a structure prevents optimal allocation of staff resources to service need. Such a structure with its inherent staffing inefficiencies was affordable in an era of full budgets; however, VBA is now facing a rapidly declining resource base as well as requirements for funding new BPR and IT service improvements and stronger strategic management and leadership capacities.

Consolidation of RO's would not only bring cost efficiencies but would actually improve service to veterans. The BPR plan, when implemented, will facilitate formation of small, stand alone adjudication teams capable of flexible geographic targeting. Existing faxing, conferencing and other technology now enable flexible geographic processing, and future IT enhancements will only improve this. A number of these small groups, situated to be convenient to veterans, could be managed through a fewer number of RO's having larger geographical jurisdictions than at present. Strengthened strategic management capacities as recommended will facilitate development and implementation of the integrated and phased planning and improved performance data necessary for successful consolidation.

### THE TIMELINESS OF APPEALS AT THE BOARD OF VETERANS' APPEALS IS SHOWING IMPROVEMENT

Improvements put in place to improve the timeliness and quality of decisions by the BVA appear to be working and show promise of reaching acceptable levels by the end of fiscal year 2000. The establishment of judicial review of VA decisions on claims for veterans benefits by the Veterans Judicial Review Act of 1988 caused major stress in the entire adjudication and appellate process generating waves of remands and rework throughout both the VBA and BVA. As BVA's productivity declined, backlogs of cases pending its review increased from about 17,000 in fiscal year 1991 to more than 60,000 at the end of fiscal year 1996. During this period, average elapsed time to final BVA decisions on substantive appeals, including time during which RO's processed remanded cases, increased almost three-fold from about 400 to over 1,100 days.

Both the backlog and average days to final decision are now being reduced and our report will describe the actions BVA has taken to improve its productivity. Prin-

cipally these involve: (1) acquiring increased staff resources, (2) implementing improved training and performance evaluation programs, (3) increasing the ratio of professional decision staff to support staff, and (4) dispensing with BVA panel consideration of appeals in favor of single board member decisions.

Our staff analysis indicates that with its current level of staff resources, BVA should be able to reduce the backlog of cases to about 20,000 or the equivalent of six months' decision production by the end of fiscal year 2000. At that time, average time to a BVA decision from the time an appeal is ready for its review should be six months which is acceptable given the complexity of appellate cases and the time needed by national veteran service organizations to participate in this stage of the appellate process.

RECOMMENDATIONS FOR URGENT ACTION TO HEAD OFF CRISIS AND ACHIEVE RAPID PERFORMANCE IMPROVEMENT

While the VBA has shown some progress, they do not have the three to five years needed to allow that progress to take its natural course. Events are being driven by potential threats to program integrity such as preparing for the year 2000. But, even without these threats, the seemingly endless and unbreakable cycle of complaint and inaction about VBA performance is a major problem for the department.

It is time for the secretary to act.

Our preliminary recommendations are that:

*Action Is Critical To Assure That Checks Continue To Go Out In The Year 2000.*—The secretary must ensure that VBA follows up on the recent actions taken by the deputy secretary to assure uninterrupted payments to veterans for the year 2000.

*Regional Office Appellate Workloads Need To Be Addressed On A Priority Basis.*—To address growing appellate workloads in the RO's, the under secretary for benefits should establish performance measures and standards for these workloads, hold managers accountable for meeting the established performance standards and report quarterly to the secretary on progress in meeting them.

*Congress Should Ensure That VBA Has The Resources Necessary To Guarantee Continued Benefits To The Veteran.*—VBA's proposed FTE reductions are premature and put at risk current operational capability to sustain performance of the claims processing system. Given significant doubts about the validity of VBA's estimating methods, Congress should not reduce VBA resources until the organization can fully document the basis for its workload and staffing estimates and demonstrate the validity of their reengineering efforts. I also recommend that the inspector general (IG) be asked to work with VBA in improving these estimating methods.

*The Secretary Should Initiate Comprehensive Change In Leadership and Management At The VBA.*—Urgent action is needed by the secretary to achieve rapid and effective reform. Such reform cannot come all at once. Crucial leadership and organizational capacities must be built before long term improvement in performance can be achieved.

The secretary should make every effort to ensure the selection of an under secretary for benefits who can lead such a long-term reform process. He should give the new leader an unequivocal charge to "fix the place" and should require him or her to develop a long-term reform plan for this. This plan should include a detailed, integrated, sequenced timetable for achieving planned objectives and the costs associated with key actions.

Vital first actions should be to: strengthen the leadership team; design a better organizational structure to promote a higher degree of accountability for performance; and ensure stronger influence by the director of the C&P Service over field operations. The under secretary should draw on the expertise of other federal agencies and private sector organizations that have a proven ability to improve organizational management and performance.

The secretary should also make every effort to ensure selection of a capable leader/manager as the new chair of the BVA with a charge to drive home BVA improvements already begun and to work closely with the under secretary for benefits to develop system-wide solutions for adjudication and appellate problems.

*The New VBA Under Secretary Needs To Develop Strong Strategic Management Capacities.*—As essential first steps, the under secretary and appropriate departmental components must take rapid action to develop jointly the strategic management capacities necessary to give leadership the tools with which to manage. These tools include an integrated and fully resourced set of strategic management capacities within the VA, VBA and C&P service. These include: (1) an effective plan, implementation, review and revision cycle at the department level and within the VBA; (2) effective evaluation, assessment, and information capacities; (3) an accountability-based implementation system of goal-setting, performance measure-

ment, and regular tracking of results; and (4) stronger coordination among VBA components and with key stakeholders such as the BVA, veterans' health administration(VHA) and key staff offices at the departmental level.

*The Business Process Reengineering Effort Needs To Be Improved And Broadened*.—The new under secretary for benefits should act to reexamine and improve the analysis, approach, and management of the BPR program. Budget estimates must be based on a more complete and detailed analysis of workloads coming into the organization and their effects on appellate workloads in VBA and BVA. Further, the BPR implementation plans must be carefully evaluated in an operational setting and their effects on program performance and staff requirements measured. The under secretary should seek assistance from the IG and expertise from the private sector in accomplishing this.

*Regional Office Restructuring Is Necessary*.—A fundamentally different configuration of field operations is required by budget and other pressures. In the interest of greater efficiency and improved service, the under secretary needs to plan for restructuring and consolidation of the 58 VBA RO's while maintaining the availability of local access by veterans to small, well-trained adjudication staffs dispersed throughout the nation. The under secretary must begin planning a new, phased effort to restructure the field service delivery network to improve customer service performance but achieve administrative savings with which to finance enhanced strategic management capacities, a training and quality strategy, and other needs. Congress should require (1) the secretary to prepare a restructuring plan by March 31, 1998; (2) the IG to review and report to Congress on progress at least twice yearly; and (3) the under secretary for benefits to report to Congress on progress twice yearly.

*Key Steps To Improve Management Of Information Resources Are Necessary*.—The under secretary should follow through on the deputy secretary's recent decision to reallocate VBA's software workforce to implement fiscal year 1996 legislative changes and hire a systems integration contractor to assume total system performance responsibility for all year 2000 modifications. In addition, the under secretary should suspend the VETSNET program and reallocate those resources to support higher priority needs. He should initiate an effort to reprioritize VBA information resources management (IRM) projects; establish rigorous processes for IRM requirements determination and configuration control; improve IRM leadership and management; and determine the necessary size of the IRM workforce. He should turn total system performance responsibility for new systems over to a systems integration contractor.

*Key VCAC Recommendations Affecting The Claims Adjudication Process Need To Be Implemented*.—The under secretary for benefits should implement key VCAC recommendations including rule simplification, development of regulations to clarify statutory requirements, and development of an integrated VBA/BVA plan to measure the quality of claims processing. VBA should also develop a capacity to evaluate field innovations, develop a training strategy, and continue improvements in disability rating examinations.

*The Secretary And The Congress Should Track And Fund Progress*.—The secretary should direct the under secretary to present a comprehensive reform plan to the Congress. For at least the next three years, the IG should monitor progress and report semi-annually to the secretary and Congress on their assessment of overall progress. The deputy DVA secretary, in conjunction with the under secretary for benefits and the chair of the BVA, should report on this progress at least semi-annually to the Congress outside of the budget process. As Congress is assured that the VBA is making progress, it should provide necessary funding in support of VBA efforts.

## ATTACHMENT 1

### ABOUT THE ACADEMY

The National Academy of Public Administration is an independent, nonprofit, nonpartisan organization chartered by Congress to assist federal, state, and local governments in improving their performance. The Academy, through its many projects, is at the forefront of efforts to create more efficient, effective, and accountable government.

*Making a Difference*

The Academy is frequently called upon to tackle the toughest issues facing government today. The problem-solving ability and innovative responses to change of the Academy are increasingly sought by Congress, federal agencies; state, local and

international governments; and private institutions. Some of the 27 projects underway in 1997 are:

—Assessing the future direction of environmental regulation and interaction among stakeholders (Enterprise for the Environment project)
—Analyzing federal mapping, surveying, and other geographical information services, including possible consolidation or privatization, and the relationship to state, local, and private activities
—Training current and future public officials in the Republic of Georgia
—Developing seismic safety standards for buildings covered by federal safety regulations
—Creating a new human resources management system at the National Institutes of Health
—Studying the feasibility of creating an enterprise organization to conduct environmental management functions at the Department of Energy
—Examining compensation and benefits claims processing at the Department of Veterans Affairs

*A Unique Institution*

*A Focus on Performance.*—Since its founding in 1967 the Academy has focused on improving the nation's capacity to achieve public purposes by maximizing available financial, information, technological, natural, and human resources.

*An Objective Viewpoint.*—The Academy is nonpartisan, insulated from political concerns, and free from ideological agendas.

*A Congressional Charter.*—The Academy's congressional charter, granted in 1984, distinguishes it as a national institution dedicated to the public good.

*A Guiding Framework.*—The Academy's framework of governance provides a formula for examining public management processes, functions, strategies, and institutions. The framework identifies four dimensions for evaluating systems and structures for meeting public needs: public purposes and strategies, institutional roles and responsibilities, performance capacities, and change.

*Academy Fellows.*—The Academy's most distinctive feature is its 480 Fellows: current and former Cabinet officers, members of Congress, governors, mayors, legislators, diplomats, business executives, public managers, and scholars.

*Advice to Congress*

Mindful of the Academy's special capacity to evaluate management issues and offer concrete recommendations for improving performance, Congress called upon the Academy for testimony 30 times in 1995 and 1996.

The Academy responded to requests for advice on emerging issues of governance and the implementation of legislation. Oversight and appropriations committees also requested Academy expertise when examining management and organization of federal agencies. Fellows also assessed legislative proposals and provided members of Congress valuable institutional history. The Academy was also called upon to identify and illuminate opportunities created by dilemmas such as the fiscal year 1996 budget stalemate.

*Funding*

The Academy is a private nonprofit organization whose projects are funded on a contract basis from public agencies and private organizations. Other revenue sources are foundation and corporate grants, Fellows' dues, endowment income, individual contributions, and seminar registration fees.

*Recently Published Studies*

*A Path to Smarter Economic Development: Reassessing the Federal Role*, prepared for the Economic Development Administration, advocates a "smarter" federal role in economic development that is based on "Learning, Leveraging, and Linking."

*The Role of the National Guard in Emergency Preparedness and Response* recommends ways that the Guard can enhance its disaster relief capabilities without compromising its role within the nation's "total force structure."

*Ensuring Worker Safety and Health Across the DOE Complex* states that the Department of Energy should transfer regulatory responsibility for worker safety and health at its sites to the Occupational Health and Safety Administration.

*Budgeting for Performance Strategy, Flexibility, and Accountability to Meet a Demanding Mission* found that with increasing demands to control the flow of illegal aliens and serve those seeking citizenship, the Immigration and Naturalization Service must rethink and redesign its budgeting processes.

These and other reports can be purchased through NAPA Publications at (301) 617–7801.

ATTACHMENT 2

VETERANS' CLAIMS PROCESSING AND THE VETERANS BENEFITS ADMINISTRATION

*Panel members*

Milton J. Socolar, Chair—Former positions with the General Accounting Office: Special Assistant to the Comptroller General of the U.S.; Acting Comptroller General of the U.S.; General Counsel and Deputy General Counsel.

Mark A. Abranson—Chair, Leadership, Inc. Former President, Council for Excellence in Government; Senior Program Evaluator, Office of Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services; Research Associate, National Academy of Sciences.

Rhoda M. G. Davis—Member, Veterans Claims Adjudication Commission. Former Director for Strategic Management, Social Security Commission; Director of Field Operations and Director of Long-term Care Research, Health Care Finance Administration.

C. William Fischer—Senior Vice President for Business and Finance, Northwestern University. Former Executive Vice President, Brandeis University; Vice President for Budget and Finance, University of Colorado; Assistant Secretary for Planning and Budget, U.S. Department of Education.

Anthony J. Principi—Former Deputy Secretary, Department of Veterans Affairs; Staff Director, Senate Committee on Veterans Affairs; Deputy Administrator, Congressional and Public Affairs, Veterans Administration; Counsel, Senate Committee on Armed Services; and line officer, U.S. Navy.

John Shannon—Former positions with the U.S. Army, including: Special Assistant to the Assistant Secretary for Legislative Affairs; Deputy Under Secretary; Assistant Secretary of the Army for Installations and Logistics; Under Secretary of the Army.

Charles W. Washington—Professor of Public Administration, Florida Atlantic University. Former Stennis Chair and Director, John C. Stennis Institute of Government, Mississippi State University. Associate Dean, School of Government and Business Administration, George Washington University.

*Project Staff*

John P. Scully—Project director. The Alliance for Redesigning Government Public Innovator Learning Network Manager; Acting Alliance Director; Special Assignment to the Vice President's National Performance Review; Deputy Director, Management Operations Directorate, Goddard Space Flight Center.

Gregory J. Ahart—Senior research associate. Management consultant. Former official at GAO, served as assistant comptroller general for human resources, director of the Human Resources Division, and Deputy Director of the former Civil Division.

Martha S. Ditmeyer—Research assistant. Consultant, National Academy of Public Administration. Former staff member Massachusetts Institute of Technology and Comsat.

Charles Hulick—Senior research associate. Former official at the General Services Administration (GSA); Assistant Commissioner for Quality and Contract Management, GSA; past President of the Senior Executives Association, GSA.

Emerson Markham—Senior research associate. Former Budget Director, Veterans Administration, ACTION and Airways Modernization Board; has held a variety of financial management and planning positions in eight federal agencies; Project Director on Academy projects, including with the Administrative Office of the U.S. Courts, Department of Veterans Affairs, General Accounting Office, Office of Personnel and Management, and Treasury Department.

Michael H. McLendon—Senior research associate. Consultant in aerospace, information technology and health care. Former professor, Finance and System Acquisition, the Defense Systems Management College; principal member, Office of the Secretary of Defense; Department of the Air Force.

Roger I,. Sperry—Co-Project director. Director of Management Studies. Former Professional staff member, U.S. Senate Committee on Governmental Affairs; Senior Group Director and Special Assistant to Comptroller.

STATEMENT OF BARBARA MIKULSKI

Senator MIKULSKI. Thank you, Mr. Chairman.

I am going to ask unanimous consent that my statement be included in the record. I note that it is 2:30, and people have been waiting to testify. We want to hear from Secretary Brown. So just note that I really want to raise questions related around the ade-

quacy of funding for medical care. I am deeply troubled about the numbers for veterans' medical research, which has meant so much to not only the veterans, but the American community at large, and also other issues related to education, the utilization of the benefits of some others.

PREPARED STATEMENT

Mr. Chairman, you should know here, periodically, sounds of applause. It is because about 10 percent of the back room are my Maryland constituents that are visiting. And they should know that Senator Bond is a real champion of the veterans. And they are here as kind of a workshop, learning how Congress works. So maybe we ought to get to it.

[The statement follows:]

PREPARED STATEMENT OF SENATOR BARBARA A. MIKULSKI

Mr. Chairman, thank you for holding this hearing today on the fiscal year 1998 budget request for the Department of Veterans Affairs. I'd like to welcome today's witness, Secretary Jesse Brown.

Since the VA was founded, we have fought a World War, a Cold War and a Gulf War. From the World Wars to Korea, Vietnam to the Persian Gulf, each conflict has created a new generation of veterans with their own unique medical needs.

We recently celebrated the 50th anniversary of the end of World War II. To the G.I. Joe generation, we said thank you again. And thank you to all of the men and women who fought and died defending this nation.

Fifty years later, the World War Two soldiers, sailors and airmen have become our veterans. We have a sacred contract with all of our veterans that we cannot break. Promises made must be promises kept. We have no higher responsibility than to provide the medical care that is due our veterans.

The VA, despite all of the criticisms, has become indispensable to our veterans. We can never abandon our responsibility to provide the best possible care to our veterans—it is our responsibility to do nothing less.

Unfortunately Mr. Chairman, you know as well as I do that this subcommittee faces tremendous fiscal constraints. We need to make sure that the VA and every other agency makes the most of the money it receives. The need to cut costs and save money is driving a new agenda for the VA.

This new agenda can be an opportunity for the VA and for the Congress. We must look for new solutions and new ideas instead of clinging to old ways of doing business.

However, as we look to reduce costs to the taxpayer, we must not reduce the quality of care to our veterans. Improving quality and efficiency should be our guiding principles, not simply cutting costs. If we are not careful, saving a buck in the short term could cost us bigger bucks in the long term.

During this morning's hearing, I plan to ask questions about several of VA's initiatives. I want to make sure that the Administration's projections for VA funding aren't overly optimistic. I want to make sure that creative proposals don't end up harming veterans as the proposals potentially get bogged down awaiting Congressional approval.

I am concerned that the VA's budget request assumes new revenues and service to new veterans without assurances that the money can be collected or that costs can be reduced sufficiently to accommodate the increase in the numbers of veterans served.

I also will raise questions about VA's plans to serve a new generation of veterans. Tomorrow's veterans may have dramatically different needs than yesterday's veterans. I want to make sure that the VA is thinking strategically and creatively about what it needs to do to make sure that the baby boomer veterans will receive the best care.

We must proceed cautiously when so much is at stake. The VA and the Congress need to be guided by a strategic plan for improving the quality of health care and delivery of benefits while utilizing new management strategies, such as decentralizing decisionmaking authority, to save money for the taxpayer.

I know the VA has begun to make some changes to become more efficient and effective, and I look forward to hearing about this process.

I want a better VA, a more efficient VA, and a VA that takes care of our veterans.

Mr. Chairman, I thank you again for calling this hearing today and I look forward to working with you on this issue.

Senator BOND. Thank you very much, Senator Mikulski.

And you have no better teacher on how Congress works than your distinguished Senator from Maryland, Senator Mikulski, who chaired this subcommittee and I would say taught me all I know about this subcommittee. But she does not want to be hung with that. And so I will just say that she has been valuable in her assistance.

Senator Faircloth, do you have a statement to submit?

STATEMENT OF LAUCH FAIRCLOTH

Senator FAIRCLOTH. Yes, I do, Mr. Chairman. And I would like to read it, if I may. It is not that long.

Mr. Chairman, I thank you for allowing me to be a visitor to your subcommittee this afternoon. I have some very serious questions that I need to ask the Secretary about a situation in North Carolina concerning some wasteful and abusive practices in the Department of Veterans Affairs there.

Mr. Chairman, almost 1 year ago today, the Veterans Department took under investigation into allegations of a sexual harassment misconduct and unprofessional behavior on the part of the Director of the VA Medical Center in Fayetteville, NC. In September 1996, the Office of the Inspector General of the Veterans Department issued a report confirming the allegations of sexual harassment as well as other acts of misconduct by the Director.

Now, Mr. Chairman, in most organizations in today's world, the Director would have been fired. But that did not happen at the Department of Veterans Affairs. Instead, Mr. Jerome Calhoun, about whom the allegations were made, was given a pay increase. He now earns $106,000 a year. He was also transferred to Bay Pines, FL, where he had asked to be transferred. Talk about throwing the rabbit in the briar patch. His relocation expenses were paid by the taxpayers.

Mr. Chairman, this is a very serious issue. My constituents in North Carolina are outraged; in particular, the people at Fayetteville and the veterans in that area. A man making $100,000, in a settlement, is transferred to Florida, with a pay increase. It is absurd, but it does not end here. Here are some of the other examples of spending practices at VA while Mr. Brown has been there. These are serious and they need correction.

One, the number of Department of Veterans Affairs employees earning $100,000 or more has increased by more than $1,200 since January 1993; 8,252 employees, or 3.8 percent of the VA work force, earn six figures or better.

A $26,000 saltwater fish tank was installed in the South Carolina VA Hospital. The yearly maintenance cost of the tank is $7,800. This was installed at a time of layoffs and a budget shortfall at the facility. The Director of the facility who ordered the tank also spent $58,000 to renovate his office, and $139,000 on furniture and equipment. When the new carpet was deemed an inappropriate color, new carpeting was installed at $5,600.

Mr. Chairman, I will not take up your time today and delay your hearing, but there are a number of issues that need to be addressed. And that is the reason I feel compelled to be here today. And, Mr. Chairman, I thank you for letting me be here.

And, Secretary Brown, I plan to contact you next week and ask you to come by as I want to discuss this with you.

Senator BOND. Thank you very much, Senator Faircloth.

And for Secretary Brown, let me tell you that I do not believe you have received the GAO or the NAPA testimony yet. I apologize for that, and we will make that available.

Secretary BROWN. We have the study, Mr. Chairman.

Senator BOND. Fine. If you would proceed.

STATEMENT OF JESSE BROWN

Secretary BROWN. Thank you, Mr. Chairman. I want to thank you so much for allowing me to present the President's 1998 budget request for the Department of Veterans Affairs.

I notice there are some new members on the subcommittee since I was here last year. I am glad that they are on this committee, and we look forward to working with all of you.

As Senator Mikulski pointed out, we have some VA employees in the audience. And she mentioned that they were a constituency of hers. But I want to note for the record that they are here to protect my back, especially after listening to Senator Faircloth. [Laughter.]

Mr. Chairman, we are requesting $17.6 billion for medical care and $19.7 billion for compensation and pension payments, $818 million for VBA, $84 million for national cemeteries, $234 million for research, $79.5 million for major construction, and $166.3 million for minor construction. The details on the total of $41.1 billion and 210,625 employees for VA programs are contained in my written testimony.

This is a good budget, Mr. Chairman, because it will allow VA to continue providing quality care and services to our veterans and their families. It builds on our progress in making changes needed to operate, as you defined it, for the last 2 years within budget realities. These changes, and eligibility reform, offer VA a great opportunity to expand and improve health care services, create new revenue streams and provide value to the taxpayers.

Our proposal includes some new tools to keep our system sound. I am pleased to report that VA will expand and improve health care delivery in 1998, without any appropriated increase above the 1997 enacted level for medical care. This is a first.

Mr. Chairman, we have been very proactive in changing the way we do business, as you pointed out in your opening statement. And we, too, are very, very proud of the innovativeness and the proactiveness that Dr. Kizer has brought to VA. But if we are to continue, we clearly need the help of Congress. Critical to our strategy is our proposed legislation to retain all third-party collections. Should this legislation require an offset of $1.9 billion to overextenders, we are proposing savings of $3.4 billion, which means $1.5 billion for deficit reduction.

It is also our goal to collect Medicare reimbursements for higher income, nonservice-connected veterans who chose VA health care.

Of course, this will require legislation authorizing the Medicare demonstration.

Passage of our legislative package will permit us to accomplish the following:

By the year 2002, we expect to reduce the per-patient cost for health care by 30 percent, increase the number of veterans served by 20 percent, and fund 10 percent of VA's health care budget from nonappropriated revenues. These three goals are mutually dependent. We cannot accomplish any one of them alone.

Without enactment of these legislative proposals, a straight line appropriation in 1998 would force VA to treat fewer veterans and eliminate thousands of health care positions. We have estimated that 105,000 veterans would be denied care next year and 6,600 health care positions may be eliminated. A straight line budget in 1998 would force us to change VERA. Those networks that will receive needed increases will get less. And those that will lose dollars will lose more. By the year 2002, we would have denied care to up to 500,000 veterans.

Mr. Chairman, no additional resources above the 1997 level will mean the beginning of the end of the VA's health care system. And I think you pointed in that direction when you provided or shared your opening statement with us.

However, if our proposal is enacted, we would provide care to 500,000 more veterans by the year 2002. Under this budget, in 1998, we would treat 3.1 million unique patients—an increase of 135,000 over 1997; provide 890,000 episodes of inpatient care—and that is going down, which is good; and 33.2 million outpatient visits—that is going up, and that is good.

This budget also includes funds that are critical to changing the claims processing system through the business process reengineering process. When completed, reengineering will allow most claims to be processed in less than 60 days by the year 2002, while reducing the cost for processing claims by over 20 percent.

I think, quite frankly, we do have a clear vision for the future as we look to reengineer that whole operation. And I am looking forward to the opportunity today to explain how.

The national cemetery system is continuing to experience growth in its workload. I am pleased to note that funding is being requested for the first full year of operations at the national cemetery in Seattle, and activation of cemeteries at Chicago, Dallas, and Albany.

PREPARED STATEMENT

Mr. Chairman, this concludes my statement. I do want you and the committee to know that I look forward to working with all of you to honor the commitments that we have made to our veterans and their families.

Now, I would be happy to respond to any questions that you or members of the committee may have.

[The statement follows:]

PREPARED STATEMENT OF JESSE BROWN

Mr. Chairman, members of the Subcommittee, I am pleased to present the President's 1998 budget proposal for the Department of Veterans Affairs (VA). We are

requesting $41.1 billion in new budget authority and 210,625 FTE for veterans' programs. This budget will allow VA to continue providing quality care and services to our veterans and their families.

The President's proposal is innovative and historic. It builds upon the significant progress we have already made in preparing VA to operate within current and future fiscal realities. Our request strikes the appropriate balance between upholding our commitment to veterans and supporting deficit reduction. It also includes new management and revenue tools to keep our system viable and promote overall savings to the Federal Government. The 1998 budget for Medical Care is the first installment of a five-year strategy to improve the delivery of healthcare to veterans. I wish to highlight several key elements of our budget request.

### A NEW COURSE FOR VETERANS' HEALTHCARE

VA has reinvented its approach to healthcare delivery and implemented a new national network management structure. We are moving toward becoming a truly national system, with coordinated networks of patient-centered healthcare services. Beginning in fiscal year 1997, we propose to allocate medical care funds on a capitation-based model called the Veterans Equitable Resource Allocation (VERA) system. This resource allocation system complies with the Congressional mandate contained in Public Law 104–204. The recently enacted Eligibility Reform Act (Public Law 104–262) offers VA a great new opportunity to provide improved healthcare services to current customers, attract new revenue-generating customers, and provide value to taxpayers.

VA will expand and improve healthcare delivery with a 2.8 percent increase in funding, but without any increase in appropriated funds above the current 1997 enacted level for Medical Care. This "baseline" strategy is tied directly to our proposed legislation to retain all third-party medical collections and user fees. The estimated $468 million in net collections will provide the funds necessary for us to cover the costs of inflation and continue to improve services.

In future years, VA's goal is also to collect Medicare reimbursements for higher income, non-service-connected veterans who choose VA healthcare. This assumes authorization of the Medicare subvention demonstration, successful pilot testing, and authorization to expand nationwide. To keep our system vibrant and in step with modern medicine, we will reach out with a high-quality product and expand our customer base.

With these incentives come new challenges. Our budget request commits us to reduce the per patient cost for healthcare by 30 percent, increase the number of veterans served by 20 percent, and fund 10 percent of the VA healthcare budget from non-appropriated revenues by the year 2002.

### IMPROVING BENEFITS DELIVERY

We continue to process compensation and pension claims in a more timely manner. The Veterans Benefits Administration (VBA) is on schedule to process original compensation claims in 1998 in 106 days, a reduction of 38 days from 1996 actual and an improvement of 107 days from a high of 213 days in 1994. Progress also continues in reducing the total pending caseload as well. By 1998, the total pending caseload will be reduced by nearly 38 percent from its highest point of 570,000 in 1994 to 356,000 in 1998.

In addition to the Compensation & Pension (C&P) medical exam pilot program funded from the C&P appropriation, our budget also proposes that exams be funded directly from VBA resources with a transfer of $68 million from the Veterans Health Administration (VHA) to VBA for this purpose. We propose that VBA reimburse VHA for the cost of medical exams conducted in conjunction with a veteran's claim for benefits. Establishing a customer/provider relationship should improve the quality and timeliness of medical exams and, in turn, enhance the quality of VBA claims adjudication. Claims remanded to VBA for deficient medical exams should decline. This budget reflects the continuation of VBA's Business Process Reengineering (BPR) for the C&P claims process, which will significantly improve service to veterans. When completed in 2002, this reengineered process will allow most claims to be processed in less than 60 days and will reduce C&P costs by over 20 percent in the same time frame.

### ENSURING A LASTING TRIBUTE FOR VETERANS AND FAMILY MEMBERS

We project that annual veteran deaths will increase 13 percent, from 525,000 in 1996 to 592,000 in 2002. Based on the 1990 census, annual veteran deaths are expected to peak at 620,000 in 2008. As deaths increase, we anticipate a corresponding increase in the number of annual interments performed at our national cemeteries

from 71,786 in 1996 to 92,300 in 2002. During the same time period, the total number of graves maintained will increase from 2.1 million to 2.5 million.

Our request for the National Cemetery System begins to position VA to meet future requirements. The budget includes funding and personnel to completely open a new National cemetery at Tahoma, WA, begin the activation process for three additional new national cemeteries, and address workload growth at existing cemeteries. Infrastructure needs will also be addressed.

The budget includes a change in Administration policy for the National Cemetery System. The Federal Government will focus on providing additional incentives for states to participate in the veterans cemetery grant program in order to improve future access to veterans cemeteries. We propose to increase the maximum Federal share of the costs of construction from 50 percent to 100 percent. In addition, the entire cost of initial equipment for cemetery operations could be funded from Federal resources.

ADMINISTRATIVE SERVICES—MAINTAIN HIGH QUALITY AT REDUCED COSTS

Reinvention efforts continue under VA's Franchise Fund. In 1998, we anticipate gross billings of nearly $82 million compared to $55 million in 1997. In addition to the six Service Activities already in the fund, we have added the remaining portion of the Austin Finance Center's fiscal operation.

Our budget also reflects the phased expansion of the Shared Service Center (SSC). The SSC is an integrated facility in which VA employees and managers can obtain fast, accurate responses to their payroll and human resources questions. In fiscal year 1998, the SSC will provide services to additional VA facilities and locations. The SSC will centralize payroll processing and personnel information in a cost-competitive way and will reduce the Department's overhead.

PERFORMANCE BASED BUDGETING

The Government Performance and Results Act of 1993 (GPRA) is the primary vehicle through which we are developing more complete and refined strategic goals and performance information. This will allow us to better determine how well VA programs are meeting their intended objectives. We are continuing to move our focus away from program inputs and toward program results. Our strategic management process has been reinvigorated to bring about a stronger "One VA" focus that emphasizes our commitment to becoming a world-class service delivery organization.

We have blended the performance plan required by GPRA into our budget submission so that program goals, objectives, and performance information are presented in an integrated fashion with our request for resources. This provides much better information on what we are trying to achieve, how we will measure our success, and what resources we believe are needed to accomplish our stated goals and objectives.

Along with our enhanced planning efforts, we have strengthened our focus on accountability for results. Our Accountability Report documents the Department's financial and programmatic performance and serves to meet the performance reporting requirements of GPRA. We continue to move closer to our ultimate objective of having a single set of performance measures that are used throughout the program planning, budget formulation, budget execution, and accountability processes. This emphasis on program results will position us to make more informed budget and management decisions.

I will now briefly summarize our 1998 budget request by program.

MEDICAL PROGRAMS

*Medical care*

This year, funding of the veteran's health system is based upon four elements: the appropriation, third-party collections, sharing reimbursements and copayments, and a demonstration pilot for billing Medicare for higher income veterans. For 1998, VA's request provides an additional $468 million—a 2.8 percent increase—over last year's enacted level. Essentially, the appropriation is straight-lined at the enacted level for 1997 with a slight adjustment, a decrease of $68 million for C&P examinations to be transferred to the VBA and an adjustment for Franchise Fund supported financial services (an increase of $14 million). VA is proposing that all third-party medical collections and user fees be merged with the Medical Care appropriation. This will provide additional resources estimated to be $591 million, of which $123 million is required to cover the cost of collections and $468 million is available for veterans' healthcare services.

The Administration is also proposing legislation to authorize a demonstration pilot project for Medicare subvention which will allow VA to bill Medicare for higher

level income veterans (Category C) and retain these funds. Although we do not estimate significant collections from this pilot in 1998, it is VA's goal to accomplish national implementation of Medicare billing before 2002. We estimate that by 2002 the combined collections from MCCR and Medicare could contribute $1.4 billion in revenue to support veterans' healthcare. Important to note, we believe VA can provide high quality care for Medicare eligible veterans cheaper than the private sector so this will benefit the Trust Funds and VA. We believe this is a "win-win" situation.

The net result of these proposals for 1998 is the total availability of new funding of $17.6 billion, which will support 187,317 FTE. We expect to provide care to 3.1 million unique patients, an increase of 135,000. The new funding level should support almost 891,000 inpatient admissions—560,000 acute care, 18,000 rehabilitation, 168,000 psychiatric care, 87,000 nursing home care, 28,000 subacute care, 30,000 residential care, and 33.2 million outpatient visits.

This year's funding request includes a proposal that will make a months' worth of funding (8.3 percent) available for two years. This will increase network directors ability to plan procurement of medical services, supplies and equipment more rationally and effectively than if they were constrained by the end of the fiscal year.

This budget makes an extraordinary commitment over the next five years to reduce per patient cost for healthcare by 30 percent, serve 20 percent more veterans, and increase the percent of the operating budget obtained from non-appropriated sources to 10 percent of all medical care funding by 2002.

VA's healthcare system is at a crossroads. VA is now implementing its most significant management restructuring since its inception. Creation of the Veterans Integrated Service Networks (VISN's) assures that scarce resources will be focused upon high priority patient healthcare. VA is also planning to move forward with the Veterans Equitable Resource Allocation System (VERA). This process guarantees that VA funding is distributed based on the eligible veteran population receiving care in a network rather than on historic funding patterns. With enactment of eligibility reform, Congress has given VA the tools to restructure the delivery of healthcare in a practical, logical and cost-effective manner, reflecting the priorities of the Nation. Combined with VERA, eligibility reform will help VA serve all veterans better and more fairly.

It is essential that VA receive Congressional support to allow us to expand our non-appropriated funding sources to support veterans healthcare. This includes VA retaining third-party insurance collections and copayments and, after successful pilot testing, VA billing Medicare for higher-income non-service-connected veterans. Allowing VA to retain all third-party collection and user fees will provide the incentive to improve collection performance. In addition, providing the medical care program with access to these alternative revenue sources will allow VA to meet the five-year funding levels envisioned in this budget, while meeting the healthcare needs of our Nation's veterans.

In this competitive health care environment, VA is becoming more customer-focused. We are measuring customer satisfaction and timeliness of services, while comparing community standards for quality measures to ensure that veterans receive high-quality, compassionate care.

Decentralization of network management will continue to promote innovations and generate more cost-effective care. VA will continue its shift from a hospital-centered specialty-driven healthcare delivery system to an integrated network delivery system that is grounded in ambulatory and primary care. VA now has a Primary Care program in place at each of its medical centers.

*Medical and Prosthetic Research*

For Medical and Prosthetic Research, a total of $234 million and 2,953 FTE will support over 1,469 high priority research projects that will enhance the quality of healthcare to the veteran population and will maintain operations of research centers in the areas of Persian Gulf illnesses, diabetes, environmental hazards, and women's issues, as well as rehabilitation centers and Heath Services Research and Development Service (HSR&D) field programs. In addition to the projects supported by VA appropriations, VA's staff will conduct over 5,200 projects supported by outside funding sources, such as the National Institute for Health (NIH) and private grants and studies.

The following are areas of focus within research: Persian Gulf Syndrome, Prostate Cancer, Outcomes Research, Nursing, Diabetes, Occupational and Environmental Hazards, R&D Program Oversight, Reorganize Cooperative Studies Program, R&D Program Research Project Portfolio, Revitalize the Career Development Program, and DOD Collaborative Research into Human Reproductive System Consequences from Traumatic Military Experience.

*Medical Care Cost Recovery*

A total of $123 million and 2,295 FTE are provided for the administrative costs of the Medical Care Cost Recovery program in order to improve collections from third parties, copayments, and other sources. With this proposal, any increase in performance will directly benefit veterans by providing additional resources for veterans heathcare. Collections in fiscal year 1998 are estimated to increase by $58 million over the 1997 level to $591 million. Legislation is being proposed to merge this function with the Medical Care appropriation to allow VA to retain medical collections.

The Administration has proposed permanently extending several Omnibus Budget Reconciliation Act (OBRA) provisions, most of which would expire in 1998 under current law. They are: extending authority to recover copayments for outpatient medication and nursing home and hospital care; extending authority for certain income verification authority; and extending authority to recover third-party insurance payments from service-connected veterans for nonservice-connected conditions.

BENEFITS PROGRAMS

VA benefits programs provide assistance to veterans in recognition of their service to their country and the impact of that service on their quality of life. We provide compensation payments to veterans who suffered disabling illnesses or injuries during military service and to survivors of those who died from service-connected causes, pension payments to needy disabled wartime veterans and the needy survivors of wartime veterans, education and training assistance to help veterans readjust to civilian life, vocational rehabilitation and counseling assistance to help disabled veterans obtain employment, credit assistance to enable veterans and active duty personnel to purchase and retain homes, and life insurance. VA seeks to use strategic planning and performance measurement to improve benefits and services for veterans and their families and ensure the best use of taxpayer investments.

The Administration is requesting $19.7 billion to support 1998 compensation payments to 2.3 million veterans and 307,000 survivors, and to support pension payments to 410,000 veterans and 304,000 survivors. This request reflects caseload and funds for benefits under Public Law 104–204 for the child of a Vietnam veteran born with spina bifida. Additionally, vocational training is also available to these children. This training may consist of vocationally-oriented services and assistance and may include a vocational education program at an institution of higher learning. Caseload increases in compensation also reflect the anticipated increases in accessions for Persian Gulf veterans as well as increases anticipated due to the addition of prostate cancer to the presumptive list for herbicide exposure in Vietnam and the extension of the Vietnam era for veterans who served in the Republic of Vietnam.

Legislation is being proposed to amend title 38 to prohibit service connection of disabilities or deaths based solely on their being attributable, in whole or in part, to veterans' use of tobacco products during service. This proposal would not preclude establishing service connection based on a finding that a disease or injury became manifest or was aggravated during active service, or became manifest to the requisite degree of disability during an applicable statutory presumptive period. There are no costs or savings associated with this proposal.

We are also proposing in this budget a 2.7 percent cost-of-living adjustment (COLA), based on the projected change in the Consumer Price Index, to be paid to compensation beneficiaries, including spouses and children receiving Dependency and Indemnity (DIC). Proposed legislation is included which makes permanent a provision of current law that provides VA access to certain Internal Revenue Service data for determining eligibility for VA income-based benefits. It also permanently limits the monthly pension benefit to $90 for certain Medicaid-eligible veterans and surviving spouses receiving nursing home care. Also proposed is the requirement that all future compensation COLA's be rounded down to the next lowest full dollar amount.

This budget request also reflects a need for an additional $753 million for the fiscal year 1997 Compensation programs to fund the COLA that took effect December 1, 1996, and to fund increases in caseload and average benefit payments. Several factors account for the increase in projected average payments, including awards of original backlogged claims, which generated significant retroactive benefit payments, increases in the number of service-connected disabilities claimed and granted to veterans, and changes in program eligibility, such as additions to the list of conditions associated with exposure to herbicides.

An appropriation of $1.37 billion is requested for the Readjustment Benefits program to provide education opportunities to veterans and eligible dependents and for various special assistance programs for disabled veterans. Education benefits will be

provided for about 516,000 trainees in 1998 including 345,300 training under the Montgomery GI Bill. This request includes funds for the annual Consumer Price Index adjustment, estimated to be 2.9 percent effective October 1, 1997, for education programs.

This budget proposes legislation which will combine the separate Guaranty and Indemnity Fund, Loan Guaranty Fund and Direct Loan Fund into one new fund, effective October 1, 1997. Beginning in fiscal year 1998 all income generated by the VA housing loan programs, except the Native American Pilot Program, would be deposited into the new fund along with appropriated monies. Under the credit reform legislation, 13 distinct accounts were necessary for the old structure. The consolidation would merge the remaining eleven accounts into four accounts under a new fund entitled the Veterans Housing Benefit Program Fund (VHBPF). No program or cost changes would result.

We are also proposing legislation to repeal certain restrictions on the collection of debts owed to the Government resulting from the foreclosure of VA housing loans. The budget also proposes to permanently extend VA's authority to (1) increase most housing loan fees by 0.75 percent and (2) charge a 3 percent fee for certain multiuse home loans. In addition, this budget proposes to permanently extend the resale loss provision in the formula that determines whether VA should acquire a foreclosed property or pay the default claim. Also included are proposals that would permanently extend the loan asset sale enhancement authority, so that VA can continue selling loans at a greater return, and increase the vendee funding fee to match the FHA fee structure on loans. VA's vendee loan program offers financing of VA real estate obtained as a result of property foreclosures and is available to both veteran and non-veteran purchasers.

GENERAL OPERATING EXPENSES

A total of $846.4 million is requested for the General Operating Expenses (GOE) appropriation in 1998. This funding level, combined with $161.5 million of administrative costs associated with VA's credit programs (funded in the loan program accounts under credit reform provisions), $11.3 million in reimbursements from the Compensation and Pensions account for costs associated with the implementation of the Omnibus Budget Reconciliation Act of 1990 as amended, and $35.8 million from insurance funds' excess revenues, together with other reimbursable authority, will provide $1.159 billion to support operations funded in the GOE account.

*Veterans Benefits Administration*

The 1998 budget request for the Veterans Benefits Administration (VBA) is $661 million which will support an average employment level of 11,400, which is 543 FTE below the 1997 level. This request, combined with $157 million associated with credit reform funding, will result in an increase of $55.6 million in discretionary appropriated funding over the 1997 level. Included in these totals are $68 million transferred from the Medical Care account for the cost of medical examinations conducted with respect to veterans' claims for compensation or pension.

This budget reflects the continuation of VBA's Business Process Reengineering (BPR) for the C&P claims process, which will significantly improve service to veterans. The BPR effort has examined C&P core business processes and addressed the entire claims processing environment. The present lengthy process will be reengineered to reduce internal handling and emphasize VBA interaction with veterans and their representatives. When completed in 2002, this reengineered process will allow most claims to be processed in less than 60 days and will reduce C&P original claim costs by over 20 percent in the same time frame.

This also reflects several on-going and new information technology initiatives that will support the needs of a reengineered environment. A major component of the VETSNET initiative is scheduled for completion in 1998. VETSNET will provide a user friendly interface and a standard payment and accounting system for the C&P benefits programs. Also included are funds for the Claims Processing System (CPS). CPS is an integrated, rules-based data collection and case management instrument designed to assist field staff in the development of disability claims and the tracking of the current status of pending claims. This system will ensure greater accuracy and consistency during the development process.

This budget also includes funds to continue the development and installation of the Education Electronic Data Interchange (EDI)/Electronic Funds Transfer (EFT) project. We will use the EDI, an expert system, to automatically process education enrollment certifications where possible and the EFT to deliver the benefit to the claimant's financial institution. When fully implemented, it is expected that the EDI will automatically process up to 40 percent of all education claims, resulting in a 45 percent improvement in processing time.

*General Administration*

A total of $185.6 million is requested for the Office of the Secretary, five Assistant Secretaries and three VA-level staff offices. This request, combined with $4.7 million associated with credit reform funding, will result in a total resource level of $190.3 million.

The fiscal year 1998 budget includes a request to add the fiscal operations of the Austin Finance Center to VA's Franchise Fund. The revolving fund will continue to be used to supply common administrative services on a reimbursable basis. All service activities under this revolving fund for 1998 will have annual billings of nearly $82 million and 659 employees, who were transferred from their parent organizations.

The fiscal year 1998 budget reflects the phased expansion of the Shared Service Center (SSC) to encompass additional VA employees and sites. The SSC will centralize payroll processing and personnel information. For fiscal year 1998, the SSC is requesting $23 million in reimbursement authority from other VA organizations. Average employment requested for the SSC is 252 FTE.

*Board of Veterans' Appeals*

The Board of Veterans' Appeals will continue working to improve appellate decision-making timeliness in 1998. Response time for the Board will decrease from 549 days in 1997 to 538 days in 1998. The 1998 request is $37.6 million for the Board in the General Administration total.

*National Cemetery System*

The National Cemetery System proposes a budget of $84 million, which will support 1,375 FTE. This represents an increase of $7.3 million and 52 FTE over the 1997 level. The funding increase over last year's level is for the first full year of operations at the new Tahoma National Cemetery in the Seattle, Washington area; for the partial activation of three new national cemeteries near Chicago, IL; Dallas, TX; and Albany, NY; for the increasing workload and infrastructure needs at existing cemeteries; for equipment replacement; and for inflation.

*Office of Inspector General*

The fiscal year 1998 request of $31 million for the Inspector General will allow for continued audits of financial statements and a continuing focus on high pay-off areas that are most vulnerable to fraud, waste, and inefficiency.

*Construction, Major Projects*

A total of $79.5 million is requested for the Major Construction program. The Major Construction request would fund the final phase of a project to correct seismic deficiencies at the Memphis, TN, VA Medical Center and expand VA's National Cemetery System. A new cemetery will be constructed near Cleveland, OH, and funds are requested to expand national cemeteries in Arizona and at Fort Sam Houston, TX. Additional funds are requested to remove asbestos from VA-owned buildings and to support advanced planning and design activities.

*Construction, Minor Projects*

A total of $166.3 million is requested for the fiscal year 1998 Minor Construction program. The request includes $140.5 million for Veterans Health Administration projects. Of this amount, $42.4 million is targeted for the outpatient care and support category. This will enable VA to continue its commitment to provide primary and preventive care. Additionally, $53.2 million will be earmarked for the inpatient care and support category. This category includes projects that improve the patient environment, such as providing private and semi-private bedrooms. A total of $16 million is also included for the National Cemetery System. Funds in the amount of $6.3 million are requested for the Veterans Benefits Administration. Staff Office and Emergency projects are provided $3.5 million.

Legislation is being proposed to increase the appropriation limit on minor construction projects from $3 million to $5 million.

*Grants for the Construction of State Extended Care Facilities*

The fiscal year 1998 request of $41 million for the Grants for the Construction of State Extended Care Facilities will provide funding to assist the States to establish new, or renovate existing, nursing homes and domiciliaries.

*Grants for the Construction of State Veterans Cemeteries*

The fiscal year 1998 request of $10 million for the Grants for the Construction of State Veterans Cemeteries will provide funding to assist the States to establish, expand or improve State Veterans Cemeteries.

We propose legislation to increase the maximum Federal share of the costs of construction from 50 to 100 percent. This legislation would also permit Federal funding for up to 100 percent of the cost of initial equipment for cemetery operations. The State would remain responsible for paying all costs related to the operation of the state cemeteries, including the costs for subsequent equipment purchases.

CLOSING

Mr. Chairman, the challenges before us are great but they do not exceed our dedication and commitment to ensuring the best possible care and service to our Nation's veterans. We owe our veterans the best we can provide. I look forward to working with you and the members of this Subcommittee to meet these challenges. This completes my prepared statement. I will be pleased to answer any questions the Subcommittee might have.

Senator BOND. Thank you very much, Mr. Secretary. Excellent timing. That is about as close as you can come in this business. Your full statement will be made a part of the record, as I hope I indicated earlier.

USER FEE PROPOSAL

Mr. Secretary, if Congress appropriates the budget request but budget reconciliation legislation fails to include the user fee proposal, what would be the impact on VHA's medical services next year?

Secretary BROWN. It would be, in my view, Mr. Chairman, devastating. Because within, as you pointed out—while the request is basically flat between 1997 and our 1998 request, we would like to retain the third-party reimbursements revenue that we receive—about $600 million, which we in turn send on to the Treasury. What we would like to do is to retain those. So it, in fact, represents a net increase in purchasing power of about $468 million.

Now, we need somewhere between 300—and you can correct me if I do not give the right numbers—about 300 and, let's say, $390 million, just to offset the COLA's that we provide to our approximately 240,000 employees. The private sector increased their services, which we purchased. And we have to buy at that increased rate. That is another $250 million or so.

And so that basically is what we used to refer to as current services. Because we have no control over that whatsoever. Just by being in existence, that is what we would have to absorb.

So what we want to do is to create this new funding stream, to allow us to absorb those institutional costs that we have no other way to pay—in the absence of appropriated funding. To answer your question to the best of our ability, we would have to deny care to about 105,000 veterans and layoff about 6,600 VA employees.

VA HEALTH CARE RESTRUCTURING SAVINGS

Senator BOND. GAO states that the VA's ongoing efforts to restructure its health care system could yield savings of $2 billion or more during the next 5 years, and that sufficient savings could be generated to increase patients served without new resources above the $17 billion level. What is your view of that finding?

Secretary BROWN. I do not know where they got that from. If we just look at the basic structure that we have in place, this is all about money. We can, Mr. Chairman, make anything work that the Congress is kind enough to place on the table. But the way we com-

pensate for it is by closing our doors to our veterans. We equate dollars with the number of veterans that we can treat.

As I pointed out to you, just our institutional costs—just the mere fact that we are in existence, will require us to offset somewhere close to about $600 million. That has to come from someplace. And what we would do if we do not have those revenues coming in, either from a nonappropriated source or an appropriated source, then we are going to take them out of our base. When we take them out of our base, we are talking about not providing care to veterans. If we do not provide care to veterans, there is no need to have our employees. If there is no need to have our employees, then there is no need to have our hospitals.

And so I do not know exactly what the rationale for making that kind of a statement is. But I do want you to know that we have been working very hard to identify as many areas in which we can generate savings to become much more efficient. And that is what this is all about, everything that we are doing now, we think, to some degree. It has been tested in the private sector. We do not just dream these things up. We take advantage of the experience of providing health care or health care delivery in the private sector, and then we try to use VA to copy them.

And so we think that we are doing a great job under Dr. Kizer's leadership in this area.

Senator BOND. Well, I just praised you for cutting $130 million out of one network. And your own projections show that you can cut 30-percent reductions in per-patient costs. And the GAO study, I guess, hypothesized that you have been able to cut expenses. And their figures must somehow relate to the cuts that you have already achieved and the cuts that you project.

Let us go on to your own assumptions on the cost reduction. We did not see any detail on how the savings could be achieved. We do know anecdotally that there have been some tremendous savings and cost efficiencies. And the GAO has mentioned some of these. And I would like some specific information on how these savings come about.

### 30 PERCENT PER-PATIENT COST REDUCTION

So, with your permission, Mr. Secretary, I would like to turn to Dr. Kizer, and ask him to tell us how we are going to achieve the savings of $956 million next year, and the methodology or analysis behind your assumption that there can be a 30-percent per-patient cost reduction by 2002.

Secretary BROWN. Mr. Chairman, before I ask Dr. Kizer, can you tell us where you get that $956 million from, sir?

Senator BOND. That was the figure, I am told, that was given us by the Department. We figured out, if you take a 6-percent reduction in patient cost next year—and you even did the math—tell us how much you are going to save next year and how you are going to get there.

Dr. KIZER. Let me try to respond to you in a couple of ways. One, the number that you reference is a gross calculation, in the sense that if you take 30 percent and divide it by 5 years this would equal 6 percent per year. If you then multiply it, you get the fiscal

year 1998 number. It is only one part of the overall effort. But, that is what the genesis of that number is.

I think what you really were asking, though, was the more important question as to how or what are some of the specifics.

Senator BOND. How do we get wherever it is you are going?

Dr. KIZER. Sure. That is a very reasonable question. The 30 percent is a target which, I believe, is the first time in the Department's history that there has actually been some sort of target set as a multiyear goal, that is, something to strive for. While we recognize that it may be perceived by some as a bit of a stretch target, we think that it is realistic and consistent with what is occurring elsewhere in the health care industry. We are employing some of the same management strategies that are being used in the private sector—things like disease management and case management; shifting care to the outpatient setting, where medically appropriate, as opposed to inpatient; using a variety of health care practitioners, such as physician assistants, nurse practitioners, and pharmacists to provide care where medically appropriate to do so; and a host of other things of that type. We would be happy to engage in a more detailed discussion with you in writing or verbally, as you like, over time.

One other point, though, that I would add and one that makes it difficult to take some of these numbers and focus on them specifically is that we have tried to focus on the aggregate cost or global cost. Because as you make some of these changes, parts of the health care budget are going to go up and others are going to go down.

For example, as we shift more care to the ambulatory or outpatient mode it is anticipated that our pharmaceutical costs will go up. That has been the experience elsewhere and that seems to be our experience as well—that is, this form of practice results in more use of medications.

So, while we will see an aggregate reduction in the global cost of taking care of a patient, some portions of our cost may go up while others go down. And, when you start doing multiple things at the same time, the actual accounting gets very difficult. The discussions we have had with staff repeatedly is that, based on some of the cost accounting and other tools that VA historically have had to work with, trying to get overly precise in some of these areas may result in less than totally accurate numbers. And so what we have focused on is the bottom line—the overall cost.

Secretary BROWN. Mr. Chairman, can I go back just for a moment to that $956 million? It bothers me. And, Mark, can you give us some—as I understand it, we understand how you got there, but we do not think that it was offset by the $600 million.

Mr. CATLETT. Mr. Chairman, the 6 percent is the number we supplied. And that is the cost reduction that is based on a deflated cost factor. So there is, in looking at the total picture—and that is part of what Dr. Kizer was saying, I believe—you have to look at that tradeoff. The commitment to the 30-percent reduction per patient is adjusted for inflation.

And so we have those increases—$600–700 million a year offsetting these reductions you have mentioned, that we have to account for.

Senator BOND. Well, I see I have this information from the Department, indicating that, before inflation, there is still a net decrease of $181.4 million. Let me come back to that. But let me first now turn to Senator Mikulski.

Senator MIKULSKI. Thank you, Mr. Chairman.

VETERANS EDUCATION BENEFITS

I would like to switch gears for a moment if I could, Mr. Secretary, and then come back to health care, to the issue of education. As you know, is one of the hallmarks of the VA benefit package has been in educational benefits. Veterans in Maryland have approached me and said, gee, if you do not use your education benefit within 10 years, you lose it.

President Clinton is talking about lifetime learning. Also the educational benefit only has about a 37-percent utilization. My question is, No. 1, how could we promote greater utilization of the education benefit? With so many young men and women who leave the military, this benefit could be tremendous.

And then, No. 2, have you given any thought to restructuring the educational benefit so that it could be a tool for lifetime learning for America's veterans?

Secretary BROWN. No; we looked at the education benefit in terms of trying to bring it into conformity with today's dollars. As has been pointed out over and over here this morning, we expressed concern about the research budget, to some degree about our flat budget and the impact that it will have. All of this had to do with VA trying to prioritize the resources that were made available to it.

Now, I like everything that you have said, quite frankly, especially since we have a sense nationwide—I am not speaking for the administration at this point; I would like to give some further thought to it—but since we have a philosophy that education is an ongoing process and it looks like the public sector is going to become involved in all of that, then maybe we need to think about taking some of the eligibility limitation dates off of our chapter 30, chapter 31 and chapter 35 benefits and make them available for lifelong experiences. I kind of like that. And I would like to explore that with you.

MONTGOMERY GI BILL USAGE RATE

Senator MIKULSKI. Mr. Secretary, I really think we could be on to something here, in terms of our veterans. I understand you need predictability in terms of budget predictions, which is when eligibility would end. And a date is a nice way of doing it. But we do have certain national goals. And also I think you would appreciate that many veterans, when they come back, have to get started in civilian life before they can then turn to education, just coming back and getting started.

So I would like to explore that with you and look at how—if it is not lifetime learning, that there is some extension of the benefits for a certain period. I am also troubled by the fact that the education benefit only has a 37-percent utilization. Has the Department done any evaluations as to why that utilization is so skimpy?

Secretary BROWN. We expect to increase it to 42 percent. But let me just get rid of this bureaucratic stuff here and just kind of go right to what you are talking about. Because I agree with you.

I think that there are some things in that area that we can do directly. No. 1, we could write to all of the veterans that have been discharged that we have addresses on and tell them and remind them that they have this benefit. We can do an aggressive outreach through our veterans organizations, asking them to remind our veterans in their monthly publications about this benefit. So there are some things that we could do to increase this. And we do expect for it to be increased to 42 percent in 1998. And our performance target by the year 2002 is about 75 percent. But I think there are some things we can do right now.

[CLERK'S NOTE.—Facts for consideration in modifying Secretary Brown's testimony.]

USAGE RATE

Both the Department of Veterans Affairs and the Department of Defense want to see an improvement in the percentage of veterans who use the Montgomery GI Bill (the usage rate). One of the goals of the VA's Education Service's business plan is to improve the usage rate. Since the Montgomery GI Bill is an important recruiting tool, DOD is also seeking to improve the usage rate.

Consequently, discussions have begun between DOD and VA to determine how best to discover the cause of the low usage rate and to seek the best method of increasing it. In addition, a member of the Secretary's Veterans' Advisory Committee on Education is conducting a survey of a sample of those eligible for the Montgomery GI Bill, but who are not using it, to ascertain their reasons for failure to pursue training.

Senator MIKULSKI. I appreciate those good intentions. But has there been an evaluation as to why the utilization is so skimpy?

Mr. LEMONS. There is concern expressed about the level of the benefit and the increased cost of education generally. Our focus groups and customer surveys have indicated that the high cost of education is a barrier to utilization of the benefit. It does not cover as much as we would like to have it cover.

Senator MIKULSKI. Well, Mr. Secretary, I would really strongly recommend that there be an evaluation, taking your own research and looking at the need that our veterans have when they come back home and how this benefit can truly be a bridge to the future. And I say this because, first of all, it is something I know you are deeply committed to. So many of our veterans are people who have come to the military from very modest backgrounds. Many are minorities. Even if they are not, they have come for service to the Nation and the possibility of education afterwards.

I think one of the most empowering things we can do for those veterans is to make sure that educational benefit is a truly empowerment tool. If they stood sentry in defense of the Nation, let us stand sentry on how the veterans benefit could be a tool. And what we could do even for minority men could be so fantastic that we would like to be a partner with you in reevaluating it, using the resources we have, but more creatively and more wisely.

Secretary BROWN. We will do it.

Senator MIKULSKI. I would like to offer that as a suggestion.

NAPA RECOMMENDATIONS

The other question that I would like to get to is also the disability benefits. You and I have talked for some time about our concern about the backlog in disability, the need to manage that. This committee has had a National Association of Public Administrators' study done on that. I believe you have their recommendations. Could you comment on the NAPA recommendations on the need for better management, better structure, greater attention to the regional offices, and so on, and let us know what you see yourself doing in that area?

Secretary BROWN. Yes, ma'am. Let me just say that I do not disagree with their conclusion that we need to have better management of the resources that we have. And I think, now that we have made recommendations to have a new Under Secretary coming forth, that we are going to be able to move forward in that respect.

There are, however, some recommendations that were made, such as the consolidation of the regional offices—and I have not had a chance to look at the entire report; I have just kind of thumbed through it—that we have some concern about, not so much in terms of concept, but in terms of reality. But we will carefully review that and we will provide you with our analysis of that review when we complete it.

[The information follows:]

RESPONSE TO NAPA RECOMMENDATIONS

May 27, 1997, VBA received the draft NAPA report. NAPA has requested our comments by June 13, 1997. We are currently reviewing it with the Department and other appropriate stakeholders.

YEAR 2000 COMPUTER PROBLEM

Senator MIKULSKI. Well, one of the issues I am concerned about, which goes to the benefits across the board, is the so-called year 2000 problem. You know, when the computers hit 2000, if we do not have a way of fixing that, it would go back. If the computer does not go forward to 2000, it goes back to 1900. And it could really mess up our pensions, our disability benefits. And you understand that. Where are you on the year 2000 problem?

Secretary BROWN. Ma'am, we have no problem with that. Obviously, we are concerned, just like any other business entity, whether in the private or public sector. But we think we have that under control. Right now, we are modifying our code, just like all of the other industry leaders are doing. We expect to start testing that in December 1998.

At the same time, we are in the process of building a whole new platform that is 2000 compliant. We are not using that as a backup system, because we think, quite frankly, that we are going to be able to have these modifications made, tested, and running. We recognize that if we do not, then we just die on the vine if our veterans are not getting their checks and we are not able to make the computations. So we are well ahead of that.

Not only are we taking advantage of the personnel that we have inhouse, we are actually hiring outside contractors to come in and help us. And so we think that we are managing this program extremely well. And, quite frankly, I feel very comfortable with it.

Senator MIKULSKI. Well, that gives me heart. But I really would encourage you to go back to look at the so-called NAPA study, because they sound the alarm about their concern that claims and appeals issues are so significant that it could really degrade the service to veterans, and are rapidly reaching a crisis level, both with the diminishing staff, the need for new technology and a streamlined regulatory process—whether that is at the appellate level for the appeal or whether it is at the first-line, particularly like the regional offices, where they say decisions are too slow and not well enough prepared.

Secretary BROWN. Yes, ma'am. That is a little bit different than the year 2000 problem.

Senator MIKULSKI. I know it is.

Secretary BROWN. But I do not totally disagree with them. We have not, in my view, managed our modernization programs extremely well. But I think now we are on course. We understand where our weaknesses are. What I have directed is that we bring in an outside consultant to look at everything that we are doing, from the top down, to make sure that all of the pieces are in place.

Senator MIKULSKI. In all of VA or just this area?

Secretary BROWN. All of VA. Because we are going to a new platform. And so what we plan on doing, we think we are doing it right. And I just did not rely on the resources within the house—their conceptualization on how things should work. In fact, we just signed that contract this week.

Senator MIKULSKI. Who is going to do it?

Mr. CATLETT. Senator, Burch & Davis is the firm that we will be retaining this week. We have the direction of the Secretary. We have done interviews and the selection process. As the Secretary said, they are going to assist us. We hope to have the first deliverable in 90 days, defining the overall information technology architecture for the Department in the future. So while we are trying to fix the problem of the year 2000 now, which we have to do as our first priority, we are looking to the future and designing the system that we are going to need.

Senator MIKULSKI. Well, I know my time is up, and I will wait for a second round on some of the health care issues. But, again, NAPA says this: Information resource management failure to manage effectively has led to our current crisis. The VA has just shown no ability to learn from previous studies.

And so I do not know if you need a chief information officer. I do not know. But, really, technology should be your tool, particularly as other resources—technology should be your best friend, particularly as other resources are frozen.

So thank you, Mr. Chairman.

Senator BOND. Thank you, Senator Mikulski.

### SAVINGS ACHIEVED THROUGH HEALTH CARE EMPLOYMENT REDUCTIONS

Let me get back to the savings. Dr. Kizer, how much of the savings would be achieved through reductions in staff? And what would be the anticipated reduction of staff by 2002?

Dr. KIZER. I do not have that exact number on the tip of my tongue. Mark may have it. We do expect to have further sub-

stantive reductions. As you may know, our current staffing level is about 185,000, which is down over 20,000 from where it was 3 or 4 years ago.

Senator BOND. What other specific plans do you have for savings? Or all of these to be generated by the networks?

Dr. KIZER. There is a long list of things that contribute to the savings. It includes reductions in everything from beds—and, as you probably know, our bed count now is down over 15,000 from where it was a few years ago. We expect that that will drop another 10,000 or so in the next 2 or 3 years. We are shifting care in a very marked way to the outpatient setting.

Senator BOND. What kind of percentage or what kind of ballpark savings does that give? What is your general estimate on that?

Dr. KIZER. The bulk of savings will come from retooling the way care is provided. Now, how you apportion that—for example, how much may be due specifically to case management versus, say, a nurse-managed clinic versus ambulatory surgery versus contracting for pharmaceuticals, that becomes very hard to dissect out all of those specific components. But, let me give you one very specific example—based upon 1 year's worth of data. We set a target in fiscal year 1996 of increasing the amount of surgery that was done on an ambulatory care basis, starting the year at 39 percent of all of our surgeries being done on an ambulatory care basis and ending the year at 52 percent, a 33-percent increase.

Now, during that year, if we compare the first-quarter statistics with the fourth-quarter statistics, and I cite these numbers recognizing the limitations of extrapolating to the long term from a 1-year sample, the number of surgeries performed in the first quarter was a little over 81,000. The number of surgeries performed in the fourth quarter was over 89,000, or about a 10-percent increase in productivity in that product line.

Likewise, the timeliness and the ease with which patients were getting the surgery increased dramatically and concomitantly, there was a 12-percent reduction in surgical-related mortality. So not only did we do more, we did it more cheaply, and we did it quicker and with fewer complications.

That is the type of thing that we are trying to do in all of the different product lines and the manner in which we provide care.

Senator BOND. Well, we appreciate those. What we would like to see is the kinds of things you were laying out, the kinds of things that you expect will continue to make those cuts. Do you have specific plans or guidelines for the networks?

Dr. KIZER. Each of the networks has submitted a plan that has been reviewed and critiqued, and feedback has been given to each network on their plan. This is the first time in the history of the Department that this type of exercise has ever been done. In my judgment, it was not a perfect process, and we do expect that as we move into the second year of this the planning and the specific linking of budget to planning will be better. We will be able to, I think, give you some more precise extrapolations of where savings will come from in the future.

You referenced network 3, where they have been able to achieve a savings of about $120 million in the past year, and they can delineate rather precisely exactly where those savings came from as

far as the amount that was due to reduced staffing and the amount due to a number of other things.

Senator BOND. Thank you, Mr. Secretary.

NEW PATIENT MIX

Let me turn to another part of your equation, and that is the new patients. What sort of mix of new patients are you expecting? Are they going to be primarily higher discretionary-income veterans, with insurance and relatively fewer medical problems?

Mr. CATLETT. I am Mark Catlett, the Assistant Secretary for Management. Of the increase we are anticipating over the next 5 years almost 600,000 new patients per year by the year 2002, we are estimating over 80 percent of that would be what we used to call category A, our service-connected and low-income veterans. Only 20 percent would be the higher income veterans that you referred to.

Secretary BROWN. Let me make one other point on that. With respect to if we have to get our legislative proposals in, the Medicare reimbursement we expect to attract higher income nonservice-connected veterans. Those are the ones that have been left out of the system, and we have to keep in mind that our high income basically could be a veteran that is making $21,000 coming into the household, so what we would want to do is to allow him to spend his Medicare dollars with VA and that way in our view makes him whole. We think they are being treated as second-class citizens now.

Dr. KIZER. If I might add just one other point to this. Under the VERA methodology, appropriated funds are being allocated only for the category A veterans, as you probably know, and I think that represents a very tangible manifestation of the philosophical commitment that is being made to serving the service-connected veterans.

Secretary BROWN. One other point, Mr. Chairman, I think that is very important. What we are basically saying, that the new, this 20 percent that we plan to attract, we really want a mechanism by which they bring the dollars with them, and that is what this is all about. That is what the third party reimbursement is really all about.

We think there is a lot of fat, and I do not want to call it fat, but there are a lot of opportunities to get more out of that $600 million. For instance, in order to collect the $600 million, it costs us about $125 million. We think we can probably do that for about $50 million, but we want to keep it all, so those are the kinds of things that we are looking at.

Senator BOND. Really, when you are talking about this, it seems to be a major change in the mission. Do you see the VA becoming a full-scale health competitor seeking to provide care for the general veteran population?

Secretary BROWN. No; what we envision is allowing VA to continue with this mission of providing care to category A's, which are our service-connected veterans and our poor veterans, and we want to, in order to take advantage of the economies of scale so that we can spread out our resources, for instance, as I mentioned to you for the first time I think it is the number of inpatients have been

reduced below a million. We expect in 1998 to provide about 890,000 inpatient episodes.

Now, at the same time, what is happening here, while the number of bed vacancies are going down, we still have to pay the rent—not the rent, but the cost of heating. We have to pay the doctors and so forth, so in order to reduce the per-unit cost, we wanted to get more people in there, and that is the whole point that is central to this thing, and so I do not think that we plan on opening this up to everybody, but the people that we do plan on treating, we want them to bring dollars with them.

Senator BOND. But you are talking about the general veterans population. They do have dollars, and I think that the GAO indicates that you are not going to get that revenue unless you get the better-off veterans.

Secretary BROWN. Well, let us talk about who the better-off veterans are. Let us just talk about Medicare. We are talking about veterans that are retired, and probably—I mean, they are not extremely well off, but we think that many of them want to come into our system, and in turn from the third party reimbursement what we are talking about is just really maximizing our efforts.

We think, for instance, a person can come into one of our outpatient clinics and get a $3,900 procedure right today, and we charge the insurance company $150. Dr. Kizer has in place now a system by which we will be able to bill the insurance company for the value that we provide to the veteran. That is going to represent in our view increased revenues, so those are the kinds of things we think we are going to be able to do much better than some of the reports that we accumulate.

TREATING MORE VETERANS

Senator BOND. Allowing the VA to gather in more revenues raised the question in GAO's mind that this could put at risk the access of category A veterans to the health services.

I wonder also on the other hand if you are trying to bring in veterans who have an option, who might go some place else if you may not be getting the benefits of competition and finding that you have to have the high quality care to get these people in. I would ask if you are concerned, (1) about diverting resources from the highest risk veterans, and (2) do you see an opportunity for competitive improvements in the care, if you are going to have to draw in veterans who currently have access to other services?

Secretary BROWN. I am going to ask Dr. Kizer to respond to that, but before I do, let me just say this. We are already in the process of making available comprehensive health care. With your help and assistance we now have eligibility reform. A veteran that is enrolled in our hospital can come in and get treated for everything from the flu to a broken foot.

That is the kind of thing that we are making available all across the Nation, and we believe that there will be many people who now want our care, and quite frankly we think it is going to, especially on the Medicare side, we think it is going to end up as a savings to the taxpayer.

Dr. Kizer.

Dr. KIZER. Let me say just two or three things. I know that you, Senator Bond, and you, Senator Mikulski, would never allow VA to abandon its mission and its responsibility of treating category A veterans. So while GAO may identify that as a hypothetical potentiality it is not consistent with reality—either from where the management of the VA is or where you as our board of directors, our oversight body, would ever let the system go.

Second, the amount of funding that we are talking about is 10 percent of our operating budget coming from nonappropriated funding. That means that 90 percent, the overwhelming bulk of money, is still provided to take care of those category A patients.

I think the real benefit that we are talking about is for a very small amount of marginal cost we can take care of some of those veterans who repeatedly—and I know you have heard this as well as we have—have said they would like to use their Medicare benefits at VA. They would like to get taken care of at the VA.

For those folks who would like to do that, and if they brought with them some resources, that could be maximized so that we could not only take care of the category A's that we are currently taking care of, but we believe we could take care of more of them.

So there is a benefit to the VA system and an overall social benefit. We would be taking care of not only those for which the appropriation is targeted, but a multiplicative or synergistic effect would accrue by which we would be able to take care of more category A's by maximizing the return on those capital investments that have already been made.

Secretary BROWN. Mr. Chairman, I do not know what he just said, but it sounds good. [Laughter.]

Senator BOND. I am going to go back and read it. [Laughter.]

I think I will probably understand it a little better the second time around.

Senator Mikulski.

MEDICARE SUBVENTION

Senator MIKULSKI. Dr. Kizer, actually I did understand what you said. What you said is that we already have in place a physical infrastructure and a patient care infrastructure, and we need to maximize it, and the best way to maximize it is to ensure that the revenue that could be garnered by third party reimbursement either of private health insurance or Medicare, if it could be recaptured to go into essentially subsidizing those who do not have either, but within the VA family umbrella. Am I correct?

Dr. KIZER. You are correct, but the additional benefit, for example, to Medicare, is that we can take care of those Medicare patients cheaper than they would be taken care of in the private sector, so there is an additional benefit, or a benefit that would accrue to the trust fund, and Medicare program, as well, but by maximizing those funds that we have we are going to take care of more of the category A veterans, as you note.

Senator MIKULSKI. And I understand the direction you are going. I think we are very fortunate to really have you in the VA family, as you really try to bring the best practices and best learned from what is going on in the private sector of health care, not the profitmaking side but the nonprofitmaking side, where we are looking

at—in many instances the VA medical centers are tied to academic centers of excellence like the University of Maryland, so bringing in those best practices I think are helping reduce cost for outpatient care.

I think what concerns Senator Bond and myself is not the good intentions or the strategic plan that you have outlined, but how this is essentially a new way of doing business or patient care, and the concern that I have is that during the transition, that VA not be caught in a financial shortfall while you are making the transition and delivering the care, that the ability to capture or recapture these other forms of reimbursement do not quite materialize the way we had hoped, and there we are.

We would not want to in any way suffer the stressed out demands on care, the possibility of RIF's and layoffs and weakening the patient care structure that we have of nurses, physicians, and other technicians, so our question is, do you think VA is—I mean, how do you see this working?

THIRD PARTY REIMBURSEMENT LEGISLATION

That is what Senator Bond is asking. How do you see this working out, and within a timeframe where they have not even passed the authorization for you to do this, which, by the way, I support, Secretary Brown, the change, so that when you do capture third party reimbursement it does not go to deficit reduction but comes back into veteran health care.

Do you see what I am saying? You have got an appropriation now that is based on a whole bunch of assumptions related to the transition, and we are not sure that transition is going to happen.

Secretary BROWN. Yes, and let me tell you——

Senator MIKULSKI. On the timetable that I believe you and Dr. Kizer hoped that it would.

Secretary BROWN. I am having nightmares about this whole process.

Senator MIKULSKI. So we are on the same wavelength?

Secretary BROWN. Yes, ma'am, and Senator Bond is, too. I listened very carefully to his opening remarks. What frightens me to death, I am afraid it will be so easy for—and no disrespect—for the appropriators to say, well, we do not have authorizing legislation so we are going to give you what you asked for, and if you give us what we ask for, we end up with $600 million less.

Senator MIKULSKI. That is exactly what I am worried about.

Secretary BROWN. That frightens me to death, on the bottom line, so we need to forget about all these numbers and just say, give them $600 million and they will just shut up and go away. [Laughter.]

Senator BOND. Is that OMB's position? That sounds too sensible for OMB. [Laughter.]

Senator MIKULSKI. Well, Secretary Brown, I think we can do it, but I really do believe you and the veterans' organizations need to light a fire under the authorizers to give the authority for you to move ahead with this strategic plan, because we are deeply concerned—I mean, there is a possible budget agreement, and we do not need to take our time to go into that.

But that is really what I am concerned about, not the strategic plan and the goals that are set, but the ability to do that, because unless everything works right you could end up—the veterans could end up with a $600 million shortfall, and that could only be addressed by less patient care, a diminishing of patient care, or riffs and layoffs.

Secretary BROWN. Stop reading my notes. [Laughter.]

REDUCTION IN MEDICAL RESEARCH FUNDING

Senator MIKULSKI. Can I ask you another question about VA medical research, which has been so important, because it is bedside patient care, hands-on research. Could you tell us the significance of this $28 million, 11 percent cut in VA medical research?

Dr. KIZER. Well, the Secretary has given such good answers before I thought he was going to take that. Clearly the impact of this cut on the research program would be damaging. I do not know any way of sugar-coating it. It would hurt. It would have definite negative effects. It was a very difficult decision for the Department, and I think, as the Secretary has testified before, it is predicated on the overall availability of funds, not on the judgment of the merits and the very high value that that program has had in the past.

Senator MIKULSKI. But if you had to implement it, what would you do, cut out new grants? Would you cut out, say, your research in a particular scientific area?

I know you have been outstanding in your work on orthopedics, spinal cord regeneration, these kinds of things, new surgical techniques for high risk patients.

Secretary BROWN. What would happen, ma'am, there would be a decrease of $28 million, which means we have a decrease of about 407 employees, and it will support a reduction in our projects from about 1,644 to 1,469. What we have done within that number, we have made a deliberate effort to fence our commitment to Persian Gulf veterans, diabetes, prostate cancer, sexual trauma. We kind of circled those to make sure they would end up not getting hurt.

Now, I am not going to try to tell you that this is adequate, because I agree with everything that you said about the importance of research, everything. I am just simply saying we had *x* number of dollars. We had to prioritize how we use those dollars. Now, if those dollars—and back up here. You are not going to hear any complaints from me. The only thing I would ask, do not take it from another veterans program. Let us find it from somewhere else, but not within the VA's program.

Senator MIKULSKI. Well, you talk to the other agencies. I do not want to reiterate the importance of research, but I am very proud that, in fact, the University of Maryland VA, that they pioneered that gall bladder surgery of the laparoscopic—what that did was reduce for high risk patients the ability to have gall bladder surgery and be able to return home probably in less than 1 week, or back to work in 1 week, where before that recovery would take 30 days. The savings, both to employers and the private sector, goes exactly to what you are trying to achieve, which is 30-percent reduction on patient cost. That is what the heck the research means, is how you can reduce patient cost, by better surgical techniques, new technologies.

Dr. KIZER. You are preaching to the choir.

MARYLAND COMMUNITY-BASED OUTREACH CLINICS

Senator MIKULSKI. Well, let me ask some other quick Maryland questions in my time. One of the things I am so pleased we pioneered in Maryland is outpatient care, and you have been enormously helpful in both the Cumberland area and Dorchester County.

Those leases are coming up for renegotiation, Mr. Secretary, and I hope your headquarters stands sentry on that, and we are also concerned about the possibility of new outpatient facilities in St. Mary's County as well as in Hagerstown. Are you in a position to tell us how those are proceeding?

We understand two community based outreach clinics, one in Charlotte Hall in St. Mary's County, the other in Hagerstown, they are awaiting, I think, a sign-off from VA headquarters with moving ahead with those.

Secretary BROWN. Yes, ma'am. There is a proposal—well, the proposal would state that Charlotte Hall State Veterans Home—Todd, tell me what this says.

Dr. KIZER. The group, or next group of clinics that would be forwarded to the Congress for concurrence is currently under review. We are going back and forth with field staff. We have not yet gotten sign-off or agreement or concurrence by the relevant folks in Congress on the last bunch of clinics that was submitted, although the Senate has indicated their concurrence. We are waiting to hear from the House folks on this, and when we get that we will proceed with those. Then we will be further processing the next batch that would come forward, and go on from there.

PERRY POINT MODERNIZATION

Senator MIKULSKI. Thank you. I just want to make one final comment about status.

As you will recall, up at Perry Point, which has served the veterans who are mentally ill and who are chronically ill with situations like Alzheimer's, this subcommittee provided leadership in providing funds to do modernization of that facility. Ms. Apostolou particularly has been enormously helpful in making that happen.

As I understand it, Perry Point now believes that new construction would better serve the veterans but also ultimately save the VA money and reduce cost, and I believe that is pending at headquarters, and I do not know where that is, and we would like you to again give you attention to it. I believe you have the engineering and architects on that.

Dr. KIZER. The recommendation has not yet reached me, and we can check and get back to you on that for the record, but I would defer further comment at this point.

Senator MIKULSKI. I would really like you to see it. I wish you could be up at Perry Point and see what your excellent staff in the back has labored on, I mean, heart and soul to keep an old building going that really, Mr. Chairman, goes back to the early 1900's where you can't regulate the heat. You can't do this.

What they have done has been heroic, and now with some modest investments we could really turn that around, and again, I be-

lieve it would help also reduce the cost of providing the same level of care. A lot of their work just has to go into maintaining the asset.

Dr. KIZER. We will be looking at that very carefully, and I would just note that as you complimented Ms. Apostolou I would second that; she has been very helpful in our dealings with the committee.

Senator BOND. Than you, Senator Mikulski, and I do have a significant number of additional questions, prepared with the assistance of Ms. Apostolou, but Mr. Secretary, I know you are enjoying this as much as I am, but I am going to ask a few questions and regretfully have to submit the rest for the record so you can get back to running the VA.

MEDICAL RESEARCH FUNDING REDUCTION

Let me ask a couple of very important questions. The budget request would cut VA research by 11 percent. The number of new projects funded would drop by 40 percent. You know my lack of enthusiasm for that. There is no explanation in the budget justifying it.

First, would you not agree that this program is a critical element to quality care in the VA, and if so, why the substantial reduction, and do you have any estimate on the number of physicians, such as the one I referenced in my opening statement, who might pursue careers outside of the VA because of difficulty in getting research dollars?

Secretary BROWN. The reduction is about 10 percent, Mr. Chairman. It went from 1,644 projects to 1,469. But I agree with everything that you said, and as I mentioned to Senator Mikulski, I am not here to tell you that we are very happy with this. If you can find the dollars, you are not going to hear anybody complain about it. I mean, we just did not have the dollars, so we just made the best that we can do with it.

We fenced off some of the programs that are very, very important in terms of having the impact on physicians leaving. We do have a lot of information on what will happen in terms of the FTE loss, which is a little over 400. The type of projects we hope to manage, a lot of that because most of these will be projects as I understand it that will be coming in, and not necessarily projects that are ongoing.

COMPENSATION ORIGINAL CLAIMS PROCESSING

Senator BOND. In the Veterans Benefit Administration the current estimates of the time it takes to process an original compensation claim does not meet the original projections. The original estimate for fiscal year 1997 was 118 days. I understand the current estimate is actually about 132 days. Why is the VBA falling short of its goal, and when do you think you will be able to meet the estimate of 118 days, and how can we believe that you will meet the standard of 106 days when we have not made the progress to date that was scheduled for 1997?

Secretary BROWN. Quite frankly, we believe we are right on target. We had a little bit of a setback because of some things that were beyond our control. For instance, we had to readjudicate all of our Persian Gulf claims. What else? Give me the others, Steve.

Mr. LEMONS. I am Steve Lemons, the Acting Under Secretary for Benefits. We had approximately a 20-percent increase in reopened compensation claims as a result of changes in eligibility criteria in the Veterans Health Administration. We put out new rating schedule changes on psychiatric conditions and respiratory conditions that increased workload as a result of readjudication of those claims, and in addition we had the passage of legislation on spina bifida.

Secretary BROWN. And we expect to be back on target—even in the presence of that, we expect to be back on target in 1999, so we are OK.

FEDERAL SUPPLY SCHEDULES

Senator BOND. Mr. Secretary, in June 1995 I believe you advised the GSA that the Federal supply schedules were open for the pharmaceutical schedule. It would result in dramatically increased prices for pharmaceutical products, and you said there would be an adverse impact of about $153 million. Is it still your view that the access would have a harmful effect on the budget of the VA?

Mr. CATLETT. Yes, sir, Mr. Chairman.

Senator BOND. And do you have an estimate of what might occur if the measure that we included in yesterday's markup does not go through?

Mr. CATLETT. The estimate that $153 million is still our estimate. I do not think we have relooked at that recently.

Senator BOND. But it is still your position?

Mr. CATLETT. That is still our position.

COST EFFICIENCY GOALS

Senator BOND. While VA has made some impressive changes in the health care system there have been no facility closures. Dr. Kizer, you said there are more VA medical centers in the Northeast than the current population would suggest is necessary. Do you expect to achieve your cost efficiency goal closures, that the closures will need to occur at some point to get to your efficiency goals?

Dr. KIZER. That is a question that is going to continually have to be asked and reassessed as we go forward. I think as you know, we did close one facility last year. In Indianapolis we have had two facilities. Of the two facilities that were operational there 1 year ago, only one of them is operational now. The other one is being operated by the State of Indiana under an enhanced use lease arrangement.

Likewise, as you may know, inpatient services at Miles City, MT, are slated to be discontinued on June 1 of this year. Requisite notices have gone out, and we will be shifting many of those resources to the Billings area to enhance the outpatient services there, while we maintain a clinic and a long-term care presence in Miles City. So, depending upon how you want to view these things, since closure probably has more than one definition, there are changes in the mission and the services that are being provided by VA facilities—some of which might qualify as closures.

As you know, in your home State there have been some changes.

Senator BOND. And we have supported those, and I think the veterans have by and large felt that the closing down of the inpa-

tient surgery at Poplar Bluff was an appropriate decision. I mean, people go wild when you talk about closures, but I think the veterans and the people who are concerned about them really feel that they are getting better service and we are grateful for that.

But let me ask you the tough question. You have got VA hospitals in Chicago. You are going to consolidate management of two of them, but you have run into incredible opposition. Some think it comes from the affiliated medical schools.

There are those who suggest that there is more interest in protecting medical school turf than the question of quality care for veterans. Where do you stand with what you are trying to do in Chicago, and how are you dealing with what we know is a very hot political potato in Chicago?

Dr. KIZER. I think we have continued to work very closely with the Chicago delegation, which has shown an exceptional degree of interest in the activities attendant to those facilities.

We will continue to work with the various constituents and stakeholder groups there to allay any concerns and to convince them that the actions that are currently underway will not only result in more services and better quality of services but will allow us to put a presence in underserved areas that currently do not have adequate access. We will be able to make access to VA care better.

I should also note that there are a number of very innovative things going on in the Chicago area. For example, the current plans to consolidate laboratories will result in very substantial savings as well as increase the timeliness and the availability of services to veterans there. While I know that Chicago is not part of Missouri, there is a certain amount of show-me-ness that occurs there, and I think the longer that people work with us, and the more we are able to demonstrate our intentions, the more they will be convinced that what we are doing is the right thing and that we are on the correct path. What we are doing will result in better services for the people that we serve.

Senator BOND. Is the merger there on hold, or is it going forward?

Dr. KIZER. It is moving forward with a degree of rapidity that did not exist some months ago.

Secretary BROWN. Let me just say on the merger, Mr. Chairman, we have already merged the administrative functions, so we have one director there and he is doing a great job. Initially I appointed him on a temporary basis, and he has now been permanently assigned.

We have set up a task force to look at the medical mergers of clinics and we are bringing all of the stakeholders in, and we have a completely open process, and we plan on moving forward to do the right thing.

Senator BOND. Well, we strongly support you in that effort, and you can tell them for those of us who have already given at the office, or actually in our home State, we are looking to see the same kind of benefits and the same kind of improvements rendered to our friends in Chicago and elsewhere. We believe that you are on the right track, and certainly this committee will support you to the greatest extent that we can.

I am sorry to see that my time has expired, and with that, I will leave the record open for questions that other committee members may have.

ADDITIONAL COMMITTEE QUESTIONS

If there are points that we have raised—and I am not going to argue whether it is an 11-percent cut or a 10.6-percent cut to research—I do not need any further information on that, but on the substantive points that we have raised, if you have further information you would like to share with us, we would welcome that.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER BOND

SAVINGS PROJECTIONS

*Question.* GAO's testimony indicates VA's ongoing efforts to restructure its health care system could yield savings of $2 billion or more during the next five years, and that sufficient savings could be generated to increase patients served without new resources above the $17 billion level.

Do you agree with GAO's assessment? If so, why?

Answer. No. Uncontrollable inflation and payroll increases alone are estimated to increase costs cumulatively over 20 percent by 2002. The total estimated budget resources needed to pay for these uncontrollable costs from 1998 to 2002 (5 years) cumulatively is $10.2 billion. VA's actions, which will include continued restructuring efforts to accomplish the 30 percent per patient cost reduction will, with the help of alternative revenues, pay for the inflation and payroll increases and the 20 percent increase in the number of veterans served.

*Question.* How much could VA save without increasing its patient base—in other words just how dependent is the 30 percent reduction in unit cost dependent on the 20 percent increase in patients and the attendant economies of scale?

Answer. It is not possible to precisely quantify how much of the 30 percent reduction in unit cost is dependent on "spreading the base" over optimally utilized fixed cost assets; however, it is expected to account for a reasonably small part of a reduction in unit cost.

*Question.* GAO states that "achieving increased efficiency is not contingent on either increases in patients served or resources". Why do you disagree?

Answer. We are currently using disease management, case management, clinical guidelines and other techniques to both improve the quality of care and to achieve more appropriate utilization of the resources we have. As stated in the preceding answers, the shortfall in uncontrollable current services (inflation and payroll increases) for 1998–2002 requires the ability to generate new revenue (medical collections and Medicare receipts) from additional patients served, better utilization of excess capacity and the spreading of fixed costs over a larger patient base and doing a better job of providing more efficient care. We estimate these actions plus a straight-line appropriation and alternative revenues will help us achieve our targeted goals.

*Question.* Earlier this year, the VISN directors completed their business plans. Do these plans reflect the specific activities the networks will undertake to achieve the 30–20–10 goal? If not, how can we be confident your goals are feasible?

Answer. The Network plans were primarily one to three year plans—while 30/20/10 is a five year strategy. The Under Secretary for Health issued planning guidance to the Networks on July 8, 1996, preceding development of the 30/20/10 performance targets. The 30/20/10 goals were released for consideration late in 1996, after most of the VISN's had already completed their formal planning processes which are reflected in the current Network plans. Consequently, only a few of the networks were able to consider or express in these plans how they would address the 30/20/10 goals. Many of the Networks, however, were aware of the general direction the Under Secretary wants the system to take and included definite movement to reach the objectives. The full implications of the 30/20/10 goals will be more completely reflected in the next VISN strategic business plan cycle which begins in the summer of 1997.

Cost per patient reductions in the range of 30 percent are consistent with what is occurring in other integrated health care systems, as well as what has occurred in VA in the past two years where bed days of care have been declining and ambulatory care has been increasing.

*Question*. To what extent is per-patient cost projected to decrease based on bringing in healthier Medicare-eligible veterans?

Answer. It is not possible to precisely quantify how much of the 30 percent reduction in unit cost is dependent on bringing in healthier Medicare-eligible veterans and "spreading the base" over optimally utilize fixed cost assets; however, it is expected to account for a reasonably small part of a reduction in unit cost.

*Question*. Do you believe that by 2002, all of the possible efficiencies will be squeezed out of the system?

Answer. Depending on whether Congress allows us to manage our resources as they should be, we would expect most of the efficiencies to be accomplished by 2002.

MEDICAL CARE COST RECOVERY

*Question*. In testimony provided for the record today, GAO states that VA's projections for insurance collections may be difficult to meet. GAO says "VA may be able to retain its revenue goals only by attracting thousands of new users who have high incomes or public or private insurance". Do you agree?

Answer. In part, yes. While they may be difficult to reach we believe they are achievable if Congress gives us the needed tools and allows the system to be appropriately managed.

Veterans with higher incomes and insurance would certainly make the task a lot easier. Increased workload alone will not make up the necessary revenues to meet the MCCR recoveries contained in the President's Budget. MCCR through program improvements and increased workload will be able to increase recoveries to reach the levels contained in the President's Budget.

VA is pursuing ten initiatives that should allow us to increase recoveries. Implementation of these improvements will occur over the next several years.

INITIATIVES FOR INCREASING REVENUES FOR MEDICAL CARE

[In millions of dollars]

| Initiative | Description | Projected recovery |
|---|---|---|
| Insurance Identification (Pre-registration, HCFA Match). | Pre-registration: Involves contacting patients scheduled for outpatient visits to remind the patients of their appointment and to update patient information. $6.4 million was recovered from insurance from 10 medical centers in one year. Assuming average recoveries of $500,000 per each of 150 medical centers, $75 million in new revenues could be generated. | 75 |
| | HCFA Match: Approximately 5 percent of the Medicare eligible population possess third party primary, full coverage, reimbursable insurance as a result of their full time employment or the employment of a spouse. MCCR is pursuing a match of Medicare and VA records to identify primary payer data. If the estimate is correct and VA mirrors the private sector, potential recoveries from this group may total between $60 to $97 million. | 60 to 97 |
| HCFA Medicare Remittance Notices | Since VA presently cannot receive reimbursement from Medicare for eligible veterans, MCCR has not been able to submit claims to Medicare Supplemental insurers similar to those of Medicare providers that have an accompanying remittance notice from a Medicare Fiscal Intermediary or Carrier. Certain payers are withholding payment of Medicare Supplemental claims. HCFA and VA are negotiating an agreement to allow VA to utilize existing Medicare contracts to obtain the remittance notices to satisfy payer requirements. A one time recovery of $42 million in outstanding unpaid claims and a recurring annual $8 million in additional revenue are expected as a result of this contract and change in processing. | [1] 42<br>[2] 8 |
| Utilization Review | In fiscal year 1995, approximately $159 million in non-Medigap inpatient claims and $44 million in non-Medigap out-patient claims were denied by payers. Utilization review staff, familiar with third party criteria, such as admissions, lengths of stay, discharges, pre-certification, continued stay reviews, etc., could negotiate payments for many of the denied claims. UR staff have recovered as much as $400,000 per medical center in previously denied claims. If we assume a possible average success rate of between $100,000 and $200,000 for each of the 150 medical centers, recoveries from proper training and assignment could amount to between $15 and $30 million. | 15 to 30 |
| Universal Billing (TRICARE, Sharing, etc.) | As a consequence of Public Law 104–262, eligibility reform legislation, expanded sharing contracts, including support of TRICARE is expected to result in $25 million in new revenues annually. | 25 |
| SC/NSC Documentation and Billing | Approximately 3.3 percent of service connected inpatient care and 2.5 percent of service connected outpatient care for adjunct conditions is inappropriately being coded as treatment for adjudicated service connected care. Properly coding this care as adjunct and billing insurance carriers will result in an additional $1 million per year. | 11 |

| | | |
|---|---|---|
| Salary and Benefit Offset | An IG audit determined that by referring delinquent patient copayment and means test debt for salary and benefits offset, an additional $3 million in revenues can be recovered. The MCCR program currently utilizes IRS offset for delinquent debt and is implementing referral of debt over 90 days old to the Debt Management Center in St. Paul. | 3 |
| Annual Total | | 239 to 291 |
| Point of Service Contracts | In order to remain competitive, traditional HMO's recently began offering their enrollees the option of obtaining health care outside the HMO network. The enrollees agree to bear larger copayments and providers receive reimbursements that are less than customary and usual. Aggressive identification and recovery from these HMO plans will be pursued. | ([3]) |
| Network Incentives | Network retention of revenues recovered will result in better managed local recovery efforts | ([3]) |
| Restructuring Reimbursement Rates | Restructure reimbursement rates to more accurately reflect the costs related to the actual services provided; and facilitate new revenue streams from public and private health insurance programs such as Medicare, Medicaid, CHAMPUS, and Sharing agreements. Initially a DRG rate schedule will be developed for inpatient care, to be used with an automated multiple rate schedule pricer in Integrated Billing. Outpatient procedure rates are planned in late fiscal year 1998. | ([3]) |
| AICS | Increases efficiency, reducing program costs to identify, bill and collect the cost of outpatient care services. Implementation of Primary Care Management module has been completed. Training on scanning and scheduling changes continues. Implementation of Version 3.0 is scheduled in Spring 1997. | ([4]) |

[1] One time.
[2] Recurring.
[3] Undetermined.
[4] Human resources dedicated to increased insurance identification initiative.

*Question.* How many new, insured users would VA need to attract in each of the next 5 years to meet revenue projections?

Answer. Projections of increases in unique patients users between 3.5 percent and 5 percent a year or workload increases of 20 percent over 5 years as contained in the President's budget should be sufficient. This increase in workload, along with increases in the number of current users that are identified with insurance, will allow VA to reach the recovery levels anticipated from third party insurers. Currently, 20 percent of all inpatient users have insurance while only 8.5 percent of the outpatients are identified with insurance. Through the use of the ambulatory data capture initiative and better insurance identification procedures, it is anticipated that by fiscal year 2002 this number should be closer to 16 percent for outpatients.

*Question.* VA recently re-estimated downward by 32 percent its anticipated third-party reimbursements for fiscal year 1997 because health insurance companies apparently have been making overpayments totaling about $150 million. Are you confident in your projections for fiscal year 1998, which represent an overall increase of 11 percent over fiscal year 1997?

Answer. Department of Veterans Affairs is confident that the assumptions contained in the 1998 President's Budget are accurate in the short term. Long term, they are less reliable because of the rapidly changing environment. In developing third party recovery estimates we relied upon the Center for Health Care Quality, Outcomes, and Economic Research, Bedford, MA. With their assistance MCCR has refined the projection methodology, and in the next few months will be reassessing the environmental effects, which are constantly changing. These are the best estimates given the fast-changing trends in workload and mode of treatment. Other environmental issues include the effects of eligibility reform or other legislation, such as authorization to bill Medicare.

*Question.* Given that inpatient workload is diminishing while outpatient workload is increasing, shouldn't recoveries decrease—since outpatient care costs less than inpatient care?

Answer. Yes, here are some things we are doing to try to address the dynamics:

—The first being workload. Projecting increases in unique patients users between 3.5 percent and 5 percent a year (workload increase of 20 percent total) while supporting declining inpatient workload of approximately 4 percent and increasing outpatient workload of over 6 percent, the MCCR third party recoveries will be able to reach the levels contained in the President's fiscal year 1998 budget based on the following factors.

—Increases must occur in the number of current users that are identified with insurance as well as new users having insurance in the same or greater portions as current users. Currently, 20 percent of all inpatient users have insurance while only 8.5 percent of the outpatients are identified with insurance. Through the use of the ambulatory data capture initiative and better insurance identification, it is anticipated that by fiscal year 2002 this number could be closer to 16 percent for outpatients.

—Restructuring reimbursement rates charged for services are another important factor. It is anticipated that, even under the current per diem rate system, increases will occur conservatively for both inpatients and outpatients at a rate exceeding one percent a year.

—Another critical area is the gap between receivables and collections. It is anticipated that the ratio between receivables and collections can be narrowed. Currently, we collect 31 percent of receivables for inpatients and 33 percent for outpatients. We expect our collection rate to improve to approximately 35 percent for both inpatient and outpatient receivables.

For the above assumptions to be realized, VHA has developed 10 initiatives that will enable it to reach or exceed those levels.

*Question.* What are your contingency plans should VA's projections turn out to be too high?

Answer. If recovery estimates are not met, the veterans health care services would have to be reduced to levels that can be afforded within available resources, in accordance with the priorities for care contained in the Veterans' Healthcare Eligibility Reform Act of 1996, Public Law 104–262.

*Question.* The user fee proposal is said to give VA managers incentive to increase collections, since such collections currently are not retained by VA. Will collections be retained by individual hospitals? If not, why would there be any incentive to increase collections?

Answer. The allocation of funds from MCCR recoveries to facility/VISN has not been determined. Several proposals have been developed and the Under Secretary for Health has been in discussions with the Network Directors on this issue. The

possibilities range from including the recoveries as part of the VERA model to allowing each facility/VISN to retain what they individually collect. As VA moves toward relying upon non-appropriated funding it is critical that all VISN's are treated in an equitable manner. No matter which method of distribution is selected, the incentive that will be created by allowing VHA to retain collections will be the greatest catalyst for increased receipts.

VHA believes that if the networks are able to manage recoveries, the local medical center recovery efforts will become better managed and more efficient, maximizing the benefits of the new resources. The networks will have the ability to consolidate certain parts of the medical collection processes to make the most of automation, and to make the most of the human resources. MCCR believes that a presence at the individual medical center or access point is essential, as direct personal contact enhances the likelihood of obtaining insurance information and answering patients' questions satisfactorily. The VHA Chief Financial Officer and MCCR Program managers will provide nationwide support to the networks through initiatives designed to increase revenue and efficiency.

*Question*. GAO states "VA has not provided sufficient information to permit a full understanding of the implications of its proposal. Delaying a decision on VA's legislative proposals until critical information is available, including a plan describing how the system will look and operate in 2002, may result in a better legislative decision on VA's budget proposal." Do you care to comment on GAO's assertion that VA's proposal should be put on hold?

Answer. GAO's comments ignore the nature of healthcare restructuring today. No one in healthcare can predict five years out. Putting these legislative proposals on hold only fosters continued reliance on the appropriation and increases competition for discretionary funding. No matter how long we wait, legislation will never be perfect. The requested proposals will give VHA a course now and provide the tools necessary to reach our long-term targets. We will continuously monitor and request changes in the future if fine-tuning is needed.

OUTYEARS

*Question*. It is my understanding that this year's budget includes realistic outyear projections. Are the outyear projections then real planning tools?

Answer. The VA and OMB have reached a 5 year agreement on the budget resources and policies requested for Medical Care. In the Government Performance and Results Act (GPRA) effort of integrating budget with planning, these resource levels will be included in the updated Network Business Planning process. VISN's will plan within these resource targets considering the long-term goals and targets established.

*Question*. For fiscal year 1999, VA is showing an increase in obligations of only $100 million over fiscal year 1998. How is it possible that in fiscal year 1999, VA could manage to increase the numbers of patients served with an increase in obligations of only $100 million?

Answer. For 1999, with passage of the requested legislative proposals, we estimate an additional 6 percent per patient cost reduction (second installment towards the 30 percent goal by 2002) coupled with an additional 3.4 percent workload increase (towards the 20 percent goal). In addition, we estimate we will reach approximately one-half our goal of 10 percent funding from non-appropriated sources.

*Question*. Will the networks be working with these outyear projections in revising and updating their business plans?

Answer. Yes, these outyear projections will be integrated into the Network Business Planning process.

ELIGIBILITY REFORM

*Question*. Dr. Kizer, last year you told us that eligibility reform legislation was a critical tool in restructuring VHA and becoming more efficient. This legislation was enacted last fall, after years of debate.

How is eligibility reform legislation allowing VA to make savings, do you have an estimate of savings associated with the new authorities and to what extent is your goal of a 30 percent reduction in per-patient cost is made possible through the new authorities?

Answer. VHA has always contended that it would manage eligibility reform in a cost-neutral manner. This legislation legitimizes the continuing transformation of VHA into a system that is changing its practice patterns from inpatient to outpatient care when it is appropriate and cost-effective. While there may be small "savings" in some areas, e.g., the "hotel" costs of inpatient care or decisions to contract for some services, these resources are shifted to other areas to produce re-

quired services, e.g., outpatient staff, prosthetics, initiatives to improve access and quality. Our goal is that by 2002, VHA will have decreased its unit costs by 30 percent, increased the number of veterans treated by 20 percent, and opened up increased revenue streams outside the appropriation by 10 percent. Eligibility reform is helping VHA to make progress toward meeting these goals. We expect to continue decreasing bed days of care while increasing ambulatory surgery and preventive medicine. Reduction in per-patient cost is made possible through the new authorities?

*Question.* In the past, Congress has been concerned that eligibility reform would increase costs by attracting a substantial new patient population. Has this happened—is eligibility reform generating significant new demand?

Answer. Even though veterans will now be able to receive whatever outpatient, as well as inpatient care is needed, we believe that efficiencies gained through the transformation of VHA will provide for treating veterans under the Act's provisions. Our data already shows that with the increase in outpatient visits, primary care enrollment, clinic availability and ambulatory surgeries, there is a concurrent decrease in admissions, bed days of care, and operating beds with no adverse outcomes.

*Question.* Eligibility Reform legislation greatly expands the size of the population eligible for unrestricted ambulatory care. Prescription drugs are a part of ambulatory care. What has been the effect of Public Law 104–262 on VA's expenditure for prescription drugs?

Answer. Currently, VA's data base regarding pharmaceutical utilization and cost in the ambulatory care setting does not track expenditures to a specific patient and diagnosis. We are, however, able to track gross utilization and pharmaceutical costs in the outpatient setting by facility, network and nationally. This information allows us to make inferences regarding the impact of shifting care from the inpatient setting to the outpatient setting relating to pharmaceutical expenditures. Although the cost of pharmaceuticals for treating patients on an outpatient basis is expected to increase, we are confident that the total cost per patient in the outpatient environment is less than inpatient care for such patients. This is consistent with the private sector experience. As we link the gross utilization data with patient specific information, we will be in a much better position to address this type of question with greater accuracy. We are in process of developing the software necessary to create the necessary linkage.

*Question.* Eligibility reform legislation provided VA with the authority to sell services to the private sector. What are VA's plans with respect to selling health care services to non-veterans?

Answer. Under the authority of prior law, VA facilities had entered into a limited number of sharing agreements under which specialized medical resources, such as radiation therapy, sleep studies, substance abuse, and transplants, were provided on an inpatient basis to the patients of our eligible sharing partners. Typically, these sharing agreements were with our University affiliates or with the Indian Health Service. These agreements remain active. However, since 1994, VHA has not established any new agreements to provide inpatient care to non-veterans, and has no plans to do so at this time.

Under the authority of Public Law 104–262, VHA does expect to sell outpatient care, health care support, and administrative services to eligible sharing partners, assuring that veterans will receive priority under such agreements. Furthermore, such agreements must be necessary to maintain an acceptable level and quality of service to veterans, or result in the improvement of services to eligible veterans at that facility.

*Question.* What policy guidance has been—or will be—issued to the VISN's to clarify when health care services should be sold?

Answer. VHA Directive 97–015, dated March 12, 1997, contains initial policy guidance. VISN or medical center directors must specifically certify in writing for each contract (a) that veterans will receive priority for the services being provided, and (b) that the contract is necessary either to maintain an acceptable level and quality of service to veterans, or will result in the improvement of services to veterans. Further guidance will be developed and issued.

*Question.* How will VA address concerns regarding competition with the private sector?

Answer. VA is very much aware of concerns regarding competition. We presently are developing more detailed policy guidance for the field on selling services and are focusing on this sensitive issue. We do not intend to compete unfairly or to "under cut" the private sector.

*Question.* What are VA's plans with respect to selling non-health care services to the private sector, such as laundry services?

Answer. The recent legislation clearly gave the VA authority to sell health care support and administrative services, as well as the use of space or equipment, to support veterans' health care. We would not expect to sell these services to individual non-veterans but do expect to sell these services to other eligible sharing partners.

*Question.* Does VA have the authority to compete with the private sector without limitation? If not, please explain what the limitations are imposed.

Answer. VA has the authority to sell any health care service, or administrative service required for the operation of a health care facility to support veterans health care. Until detailed policy guidance is issued, all requests from VA facilities to sell administrative resources, the use of medical equipment or space, prosthetics, supplies or laundry services, regardless of service or dollar amounts, are individually reviewed by a headquarters team composed of staff from VHA, Office of Acquisition and Materiel Management (OA&MM), and General Counsel. Each proposal is individually discussed with each facility by the review team, who emphasizes VA's sensitivity to the issue of competition and the need for fair pricing. This same information has been conveyed to the field on monthly conference calls and on national satellite teleconferences.

*Question.* Has the VA conducted any studies concerning the effect of VA resource sharing on the ability of private sector companies to compete with the VA?

Answer. No studies have been conducted. While policy guidance will be provided by VHA headquarters, actual decisions to sell services will be made locally within the policy framework.

*Question.* Has the VA conducted any studies which reflect the amount of business which the VA intends to displace from the private sector?

Answer. No studies have been conducted; however, the VA intends to compete fairly in providing quality services to support veterans' health care.

*Question.* Has the VA developed any projections on how much revenue it will generate from resource sharing?

Answer. No specific projections have been developed, however, the expanded provisions under Public Law 104–262 will help us achieve the 10 percent collection goal.

*Question.* How will VA determine the cost of VA services provided to the private sector?

Answer. VA will look at both total costs and incremental costs. We also will take into account comparable market prices for the same services in determining an appropriate price for VA services that will be in the best interest of veterans' health care and of the Federal government.

*Question.* What are VA's plans with respect to selling excess capacity to help other federal agencies meet their beneficiaries' health care needs?

Answer. VA encourages its facilities and VISN's to offer available services to other Federal agencies. The only restriction currently imposed by the Secretary precludes new agreements that would provide inpatient care at VA Medical Centers to non-veterans other than DOD beneficiaries. Our plans include expanded sharing with all Federal agencies and with DOD's TRICARE contractors. We have negotiated standard provider agreements with each TRICARE contractor to facilitate the development of facility-specific TRICARE agreements.

ACCESS POINTS

*Question.* To date, VA has been given approval to open 51 community-based outpatient clinics. Currently pending is a request for an additional 38 clinics. VA has assured the Committee that the access points meet a number of criteria, including that the "host" medical center will fund the clinic out of existing resources. VA has yet to let the Committee know of its long-term plans for access points—how many more are needed nationally to ensure equitable access to medical care for veterans and over what time frame will they be activated?

Answer. It is not known exactly how many CBOC's are needed nationally to ensure equitable access to medical care for veterans. Overall, the Community Based Outpatient Clinics will facilitate the transition of VA from a hospital bed-based system of care to a more efficient health care system rooted in ambulatory and primary care. The CBOC review process is open-ended, and VISN's will continuously identify appropriate sites in their geographical areas and develop business plans and proposals for submission to VA Headquarters.

*Question.* Why are only 19 of the 51 approved access points operational at this time?

Answer. The proposals which were submitted for review are plans and, therefore, conceptual in nature. Indeed, one of the criteria for submitting these for approval

is that no definitive agreements will have been effected (e.g., leases, contracts, etc.). Upon notification that a proposal has been approved, it is necessary for the parent facility to enter into the formal process of finalizing the preferred alternative. In the case of setting up a VA staffed clinic in leased space, it is necessary to solicit bids for the space, negotiate the costs associated with any required modification or renovation, acquire necessary equipment, and contract for ancillary services. If a clinic is to be a contract for service, the negotiation process to assure that the requirements as set forth by the parent medical facility are met, requires careful analysis and review to assure that all associated costs are reasonable.

*Question.* How many additional access points are needed to meet VA's goal of attracting 600,000 new users by 2002?

Answer. There is no specific number of CBOC's that directly correlates to the goal of 600,000 new users. However, the primary criteria for establishing CBOC's is to improve access to care for existing workload.

*Question.* VHA plans to bring in 600,000 new veterans by the year 2002. For fiscal year 1998 the budget assumes a 4.6 percent increase in patients at cost of $774.7 million—which amounts to about 135,000 patients. Are these new patients expected to come primarily through the new community-based outpatient clinics?

Answer. Although some new patients may be expected at the CBOC's, a larger share will initially come from current medical center users who choose to receive outpatient and ambulatory medical care at a CBOC more convenient for them. In establishing CBOC's nationwide, the focus is not on how new veterans are brought into the system; but rather, a concern for providing quality care in the most appropriate setting, whether the care is at a medical center or a CBOC.

MEDICAL AFFILIATIONS

*Question.* How will the cost-efficiencies that you anticipate impact VA's affiliations with 105 of the nation's medical schools? Are major changes to the affiliation agreements needed to being about the streamlining that is needed?

Answer. VA is in the process of executing revised affiliation agreements with all of its medical school academic partners. While VA has made a number of changes in the affiliation agreement documents to reflect the changes in the structure and operation of the veterans health care system, it is difficult to predicate how future cost efficiencies will impact VA's medical school affiliations.

Currently VA and its medical school partners are conducting substantive reviews of the affiliation relationship. The most important parts of these reviews will be mutual strategic planning and the identification of opportunities for improvement and measurable outcomes to track future progress. The products of the reviews will be an assessment of the affiliations and plans for the future of the academic partnerships. (See the attached Academic Partnership Policy Instruction.)

MEMORANDUM FROM THE DEPARTMENT VETERANS AFFAIRS

FEBRUARY 26, 1997.

Subject: Academic Partnership Policy Instruction

*Chief Network Officer (ION), Chief Academic Affiliations Officer (14), Network Directors, Facility Directors, and Associate Directors, Facility Chiefs of Staff, and ACOS for Education*

1. As VHA moves forward with formulation of the health care system for tomorrow, a number of operational and policy changes are needed to bring the management of our academic affiliations into line with today's and tomorrow's expected needs. The provision of health care professional education and the conduct of research are two important missions of the Veterans Health Administration and are intricately associated with the direct delivery of care by VA treatment facilities. The unique challenges of these missions must be addressed in our re-engineering to make them consistent with specific VHA changes that have been effected since 1995.

2. As outlined in my first Academic Partnership Policy memorandum of October 7, 1996, it is anticipated that a number of "Academic Partnership Policy Instructions" will be issued by the Office of the Under Secretary for Health in order to accomplish these goals. The attachments to this memorandum continue this series and include the following:

—97–01 Academic Partnership Policy: Affiliation Review and Execution of Revised Affiliation Agreement Documents outlines the process for a substantive review of the affiliation relationship between VA and its school of medicine academic partners and the execution of revised affiliation agreements. This process will

include participation from the local, network and headquarters components of VHA as well as our academic partners.

—97–02 Guidelines for Review of Affiliations constitutes the framework within which the effectiveness and value of the academic partnership is measured. It is anticipated that the reviews will be the basis for long-term planning for academic affiliations with medical school partners and will identify measurable outcomes to track future progress. The actual reviews of the facility-medical school relationship will take place at the local level, with the attendant documents submitted to the network leadership for concurrence or revision. The Network Director will ensure that an appropriate review process has been formulated to accomplish a comprehensive review of academic affiliations, and through the Network Academic Partnership Councils monitor the follow-through of the process.

—97–03 Academic Affiliation Agreements provide the model template and language for updated affiliation agreements. Any deviation from the model template must be submitted to VA General Counsel for review and approval before execution. During fiscal year 1997, revised affiliation agreements will be executed for institutions sponsoring the 105 medical school partnerships with VHA. New affiliations with other academic partners may be executed using the new templates, but it is not necessary to prepare new affiliation documents for non medical school partnership agreements in fiscal year 1997. These will be executed in fiscal year 1998, after the recommendations of the Associated Health Professions Review Sub-Committee of the Special Medical Advisory Group have been received and implementation decisions made.

3. The Chief Academic Affiliations Officer shall provide guidance and assistance to network directors and treatment facilities regarding these issues. The initial point of contact for questions should be the Office of Academic Affiliations.

KENNETH W. KIZER,
*M.D., M.P.H.*

---

## UNDER SECRETARY FOR HEALTH'S ACADEMIC PARTNERSHIP INSTRUCTION

97–01 (FEBRUARY 26, 1997)

### ACADEMIC PARTNERSHIP POLICY: AFFILIATION AND EXECUTION OF REVISED AFFILIATION AGREEMENT DOCUMENTS

#### INTRODUCTION

VA is the nation's largest provider of health professions education and training; and as such, it is obligated to lead in the development of a health professions work force that meets the current and future needs of both veterans and the nation. The educational impact of VA relies on its partnerships with many of the nation's leading academic institutions. The basic foundation for VA partnerships with academic health care programs was espoused in Policy Memorandum Number 2 issued in 1946. The key objectives of this unique document were to maintain and improve health care for veterans, to assist in recruitment and retention of the highest quality staff at VA facilities, and to create a patient care environment characterized by an academic atmosphere of inquiry. Much of that document is as applicable today as it was when it was conceived 50 years ago.

Nonetheless, medical science, the manner in which health care services are delivered, the training of health care professionals, the health care manpower needs of VA and the nation, and the structure and operation of the veterans health care system have all dramatically changed since Policy Memorandum Number 2 was promulgated. A number of operational and policy changes are now needed to bring VA academic affiliations in step with the health care environment of today and tomorrow and to make the management of them consistent with specific VHA re-engineering changes that have been effected since 1995.

Therefore, VHA will renegotiate its academic affiliations over the course of the next two years. The process will be carried out in two phases. Phase One will encompass a substantive review of the affiliation relationship between VA and its academic partners and the execution of a revised affiliation agreement. Phase One will concentrate on those institutions sponsoring the 105 medical school partnerships. Phase Two will address the other 4,000-plus affiliation agreements that VHA maintains for its associated health professions training programs. Phase Two awaits the finalization of a policy that will be anchored in the recommendations of the Associated Health Professions Review Subcommittee of the Special Medical Advisory Com-

mittee. Accordingly, Phase Two will be implemented after the Associated Health Professions Review Subcommittee has completed its work and action on its recommendations has been determined.

This document addresses the principles and process for Phase One and includes, (1) direction for the completion of a review process for affiliations between VA and its medical school affiliates and, (2) the process for execution of revised affiliation agreement documents between VA and its academic affiliates.

PRINCIPLES

The following set of principles guides the linked processes of review and execution of revised VA and medical school affiliation.

1. Health care work force training, medical education, and research are most beneficial to patient care and most valuable to learners, when they are aligned with the best models of patient care.

2. Education and research should be accountable to health care system needs. Accordingly, they should be managed with performance expectations and outcomes measures.

3. VA's educational offerings should emphasize areas of greatest need to society and to those of its veterans. They should be especially concentrated in areas for which VA has special expertise. The numbers and types of health care professionals should be determined by the needs of the system and the needs of the nation.

4. Academic affiliation agreements with VA should be fair and equitable to all parties.

PROCESS FOR REVIEW AND EXECUTION OF REVISED VA-MEDICAL SCHOOL AFFILIATION AGREEMENT DOCUMENTS

*The general conditions and expectations listed below will guide these processes.*

1. The linked process of review of affiliations and execution of revised affiliation agreement documents will take place under the guidance of the Chief Academic Affiliations Officer. The Network Director will provide guidance to individual treatment/training facilities regarding Network strategy and goals with reference to affiliation agreements and shall approve all affiliation agreements. Specific negotiation regarding operational and logistical details will be negotiated by the facility.

2. A set of guidelines (attached) will serve as the basis for the review. The review process will begin concurrently with the process to execute revised affiliation agreement documents. Because the prowess of executing new affiliation agreement documents will renew existing affiliation agreements with new standard language, it is expected that the new master affiliation agreements and new School of Medicine affiliation agreement documents will be signed within 120 days. The review process may extend beyond this deadline, because it is anticipated that the review will lead to ongoing planning, implementation strategies and outcomes analysis.

3. The template affiliation agreements will apply to all VA-university affiliations. There shall be no informal or special arrangements that are not in accordance with VA policy or sound management practices as outlined by the template agreement. Any wording change from the template must be approved by General Counsel in VA Headquarters.

*The sequence and implementation of the review and execution of revised affiliation agreement documents processes is shown below.*

1. *General.*—The Chief Academic Affiliations Officer will convene the Network Academic Affiliations Officers to initiate the processes of review and execution of revised affiliation agreement documents. The review process will be based on guidelines that have been developed by VHA educational and administrative leadership as well as leadership from VHA's academic partners. The VISN will initiate these processes for each medical school partnership in its network. The Network Director will be responsible for the direction of the processes. The Network Academic Affiliations Officer will be responsible for coordination of the processes.

2. *Revised Affiliation Agreement Documents.*—The Revised Affiliation Agreement Documents provide the model template and language for updated affiliation agreements. Any deviation from the model template must be submitted to VA General Counsel for review and approval before execution. During fiscal year 1997, revised affiliation agreements will be executed for institutions sponsoring the 105 medical school partnerships with VHA. New affiliations with other academic partners may be executed using the new templates, but it is not necessary to prepare new affiliation documents for non-medical school partnership agreements in fiscal year 1997. These will be executed in fiscal year 1998 after the recommendations of the Associ-

ated Health Professions Review Subcommittee of the Special Medical Advisory Group have been received and implementation decisions made.

There are three types of affiliation agreements: master affiliation agreements, school of medicine affiliation agreements and educational program affiliation agreements.

—*Master Affiliation Agreement*.—There will be one Master Agreement for each college/university with which a facility has an agreement. It will be signed by the Facility Director, the leading official at the educational institution, and the Network Director. The generic umbrella of the master affiliation agreement constitutes both the philosophical and legal basis for numerous specific corollary agreements that may be executed among components of VA and the affiliates. Such corollary arrangements may address academic programs as well as health care delivery arrangements that may be executed under the enabling umbrella of the master affiliation agreement. They may talk the form of contracts, memoranda of understanding, performance guidelines, leases, written agreements which cover academic or research partnerships, as well as shared services, facilities, equipment or other resources that support the affiliation. Additional agreements may include VISN-wide coordinating agreements, or local multi-affiliate sharing agreements where relevant. Failure to agree on the details of one or more corollary agreements made as a part of an affiliation agreement should not necessarily preclude approval of the master affiliation agreement, but should constitute the basis for planning and for future interaction.

—*School of Medicine Affiliation Agreements*.—The Medical School Memorandum of Affiliation specifies unique aspects of affiliations between VA and schools of medicine and will be signed by officials in the medical school and the university as well as VA officials at the facility and network levels.

—*Educational Program Affiliation Agreements*.—The Educational Program Affiliation Agreement applies to an individual program in a medical school and to all other non-medical school affiliations. This includes a separate educational program agreement for each discipline-specific educational program that sends trainees to VA. It will be signed by the VA Network Director or his/her delegates and the responsible official at the educational program.

3. *Review process*.—To accomplish a comprehensive review of academic partnerships, the VISN will convene a meeting of facility and medical school leadership to discuss the rationale and goals of the review guidelines and their network level and facility level relevance. Rational expectations for the review will be discussed. The review will incorporate all relevant areas of partnership between VA and the academic affiliate. Cross-cutting issues as well as opportunities and challenges for VA/affiliate partnerships will be addressed. The Network Director will assure that an appropriate review process has been formulated to accomplish a comprehensive review of academic affiliations. When the facility-medical school review process has been completed, the attendant documents will be submitted to the network leadership for concurrence or revision. Upon completion of the network level review, the documents will be submitted to Headquarters for review and comment. The time line for completion of the review will be determined by each VISN. In any event, it is to be completed no later than September 30, 1997.

4. *Follow-through of the Review Process*.—The review process is not an end unto itself. It is anticipated that it will be the basis for long-term planning for academic affiliations with medical school partners. Therefore, as part of the discussions surrounding the review process, a set of future strategies will be developed to address the guidelines. It is expected that the Network Academic Partnership Councils will play an important role in the follow-through of the review process. They will coordinate the tracking of measurable outcomes that emerge from the review.

5. *Execution of Revised Affiliation Agreement Documents*.—Concurrent with the review, the process leading to the signing of a master affiliation agreement and accompanying school of medicine affiliation agreement will take place. It will include participation by facility leadership—to include at least the Facility Director, Chief of Staff, and Associate Chief of Staff for Education—and the academic affiliate's leadership—to include the medical school dean and the university president or his/her delegated representative. The Network Director will be the official designated to approve the affiliation agreement for VA.

6. *Time line for Approval of Master Affiliation Agreement*.—It is anticipated that the execution of the master affiliation agreement and school of medicine affiliation agreements—from convening of the network-level leadership to final review—will take no more than 120 days.

97–02 (FEBRUARY 26, 1997)

## THE VA-MEDICAL SCHOOL PARTNERSHIP: GUIDELINES FOR REVIEW OF AFFILIATIONS

### INTRODUCTION

VA is committed to its education and research missions. The review of VA-medical school affiliations designed to strengthen those missions in the context of the change that is occurring in the larger health care environment. If VA-academic partnerships are to continue to be mutually beneficial, both entities must work to strengthen this partnership.

VA is in a unique position to support effective change in medical education. First, it provides financial and organizational support for a large proportion of medical education in the United States. Second, because of the medical and social complexity of the patients VA serves, only the best in medical skills and the most effectively integrated system will meet veterans' health needs. This context provides a singular opportunity to help prepare future physicians for a changing health care system currently dominated by managed care.

These guidelines for review of affiliations are intended to constitute the framework within which the effectiveness and value of the partnerships are measured. The guidelines have been developed to reflect the shared goals of the partnerships and to provide a mechanism for tracking their success into the future. Of necessity, the vision for the future held by the partnership leaders will be evolutionary. It is assumed that not all partnerships will be at the same point in the development of a strategy that deals effectively with the changes that are occurring in medicine today. Nevertheless, this process of assessment should reflect the attitudes and plans as they exist currently and the mechanisms to effect valuable change going into the future.

### APPLICATION

The review of VA-medical school partnerships differs from other accreditation and standards-based reviews. It is not so much a "report card" as it is a foundation for planning and establishment of goals. The review will incorporate all relevant areas of partnership between VA and the academic affiliate. The value of the partnership to both VA and the school of medicine should be addressed together with the status of the strategic plans of each partner that may have an impact on the future of the partnership. Opportunities for improvement and for the development of new partnerships should be addressed. The reviews will be the basis for long-term planning for academic affiliations between VA and medical school partners, and they will identify measurable outcomes to track future progress.

The reviews of the facility-medical school relationship will take place at the local level, with the conclusions submitted to the network leadership for concurrence or revision. The Network Director will ensure that an appropriate process has been formulated to accomplish a comprehensive review of academic affiliations. Each Network Academic Partnership Council will monitor the follow-through of the process. While the review will initially focus on the local VA facility-affliated school of medicine partnership, it will also incorporate the emerging changes that are taking place in the VA health care system, including systems planning for patient care delivery within the context of the population-based Veterans Integrated Service Networks. Recent changes in VA administrative structures and processes may help to enable previously untapped opportunities for neighboring schools of medicine to share in VA partnerships.

The review process is expected to be the basis for long-term planning for VA's academic affiliations with medical school partners. Therefore, as part of the discussions surrounding the review process, a set of strategies will be developed to address the future goals of the partnership. It is expected that the Network Academic Partnership Councils will play an important role in the follow-through of the review process. They will coordinate the tracking of measurable outcomes that emerge from the review.

### EXPECTATIONS

The product of the review of affiliations should be an assessment of the current strengths and weaknesses of the partners' relationship and a short-and long-range plan for the future of the academic partnership. The broad headings included below are intended to help focus the review around major conceptual areas of the partnership as embodied in the affiliation agreements. Varying degrees of integration are found in the many VA-medical school partnerships. The specific questions included with each conceptual area are intended to be examples of representative questions

that may be relevant for a subset of affiliations. They are not intended to be an exhaustive list of specific uniform measures applicable to all situations. Rather, they are to serve as examples that may help to characterize the partners' relationship.

GUIDELINES FOR REVIEW OF AFFILIATIONS: CONCEPTUAL AREAS OF THE VA-MEDICAL SCHOOL PARTNERSHIP

*Mission/vision*

The provision of education future healthcare providers and the conduct of research are statutorily defined missions of the Veterans Health Administration. Building on the long-standing, close relationships between the U.S. Department of Veterans Affairs (VA) and the nation's academic institutions, VA seeks to play a leadership role in reshaping the education of future healthcare professionals to help meet the rapidly changing scope and complexity of the nation's health care delivery system. (Memorandum of Affiliation Master Agreement. Preamble)

*Examples of Representative Questions*.—A shared vision of the future is important to a successful partnership. How do the University/Medical School and VISN/facility leadership reflect congruence in their commitment to clinical care, education and research within a vision for the future state of the national, regional, affiliate and VA health care systems? What are the collaborative strategies to deal with the emerging clinical work force and the nation's changing health care delivery system? In what ways can VA and medical schools collaborate in response to the emerging environment? What do VA and medical schools expect of each other? How can these expectations be met?

*Physician faculty issues*

At its finest, an affiliation agreement articulates a "one campus" concept for the two parties. To the extent possible, it establishes the goal of one standard for patient care, one standard for resident and student education, one standard for research, and one standard for faculty appointments. (Memorandum of Affiliation Master Agreement Preamble)

*Examples of Representative Questions*.—The VA school of medicine partnerships results in medical school physician faculty having appointments at the VA as staff physicians. These appointments vary in the percent of time spent at each institution. What is the overlap in physician appointments? Are there physicians that are considered VA-based? If so, are VA-based faculty academically productive, as reflected by peer-reviewed publication, external grant funding (NIH, merit review, educational grants, etc.), and medical student and resident teaching? How do they compare in these areas to comparable non-VA-based faculty? How is commitment to care of veterans demonstrated by VA-based faculty? What leadership positions do VA-based faculty hold in medical school educational programs? How many are on the medical school curriculum committee? What VA-based faculty have received awards for outstanding contributions to education and research from the medical school? What VA-based faculty occupy positions of influence in the medical school? How many VA-based faculty carry university administrative positions? Which ones?

*Medical care of veterans and the education and research partnership*

It is the intent of VA to maintain its long-standing practice of effective affiliations with educational institutions for the purposes of contributing to continued excellence in VA patient care and conducting joint academic programs that address health manpower needs throughout VA and the nation. (Memorandum of Affiliation Master Agreement Preamble)

*Examples of Representative Questions*.—How well does VA rank among students and residents as a preferred site for education? It is recognized that the shift of workload and teaching to the ambulatory setting creates new complexities and challenges. How have the partners collaborated to develop innovative strategies for student and resident supervision and curricula for ambulatory care? Given the climate of resource constraint, what consideration is being given by the partnership to the support of the education and research missions? Are VA and non-VA ambulatory/continuity experiences integrated? How is the economic aspect of medical practice reflected in the student and resident curricula? How is access to care facilitated in clinics/practices in which residents and students learn? How is patient satisfaction tracked among patients cared for by students and residents? How do the facility and medical school support the clinics/practices where students and residents learn? What is the mechanism for planning and tracking such support? Does the collaboration foster education in primary care? How? Are there efforts to move toward models of primary care training that are interdisciplinary? In what ways does the affiliation foster VA's research mission?

*Business relationships*

The generic umbrella of the affiliation agreement is critical to the affiliation because it forms the philosophical and in some cases, the legal basis for numerous specific agreements that may be executed between components of the affiliate and VA. Affiliation agreements with individual academic institutions may lead to agreements in a number of different academic programs and for a number of different health care delivery arrangements that may be executed under the umbrella of the affiliation agreement. The success of the affiliation must be judged in the aggregate—that is, a balanced judgment of the tradeoffs and values of all the arrangements entered into between the affiliated parties. (Memorandum of Affiliation Master Agreement. Corollary Agreements)

*Examples of Representative Questions*.—What is the process for initiation of sharing agreements relative to patient care, education and research? What sharing agreements exist? How are the outcomes of such sharing agreements tracked? What other business agreements exist between the partners?

*Network-wide issues*

This agreement, when duly executed and approved by the Department of Veterans Affairs (VA), authorizes its Veterans Integrated Service Networks and the listed VA facilities, to affiliate with academic institutions for the purposes of enhanced patient care, education and research. VA and the affiliated academic institution have a shared responsibility for the academic enterprise. (Memorandum of Affiliation Master Agreement. Terms of Agreement)

*Examples of Representative Questions*.—What is the evidence that there is a collaborative relationship among the affiliated deans in the network? How have efficiency and savings been realized by consolidated programs? What is the evidence for joint planning among affiliated deans and VISN leadership?

*VA/University governance*

VA treatment facilities, or groups of VA treatment facilities as appropriate, will establish an Affiliation Partnership Council made up of representatives of the affiliated health professional schools. The Council will act as the strategic planning and coordination body for all academic matters involving VA and the affiliates, and will coordinate the tracking of measurable outcomes that emerge from reviews of the academic partnerships. The Council will inform VA of affiliate matters such as strategic planning, program direction or budgetary issues affecting VA. Topical or discipline specific subcommittees to address specific management or strategic interests may be developed as needed in collaboration with the academic and VA leadership. (Memorandum of Affiliation Master Agreement. Terms of Agreement)

*Examples of Representative Questions*.—Who constitutes the current Academic Partnership Council? How does the Academic Partnership Council track defined outcomes? What are those outcomes? How does the leadership of the medical school, the facilities, and the VISN demonstrate collaborative management among departments, e.g., number of joint projects in care delivery, interdepartmental research projects and grants, joint faculty appointments, coordination among teaching programs? What is the mechanism to establish goals and to track their achievement as a result of this current review of the academic partnership? Does the leadership of the medical schools and the VISN perceive each other's governance systems as a possible basis for moving to overcome hindrances to effective change?

---

97–03 (FEBRUARY 26, 1997)

ACADEMIC AFFILIATION AGREEMENTS

Revised academic affiliation agreements provide the model template and language for updated affiliation agreements. Any deviation from the model template must be submitted to VA General Counsel for review and approval before execution. During fiscal year 1997, revised affiliation agreements will be executed for institutions sponsoring the 105 medical school partnerships with VHA. New affiliations with other academic partners may be executed using the new templates, but it is not necessary to prepare new affiliation documents for non medical school partnership agreements in fiscal year 1997. These will be executed in fiscal year 1998, after the recommendations of the Associated Health Professions Review Subcommittee of the Special Medical Advisory Group have been received and implementation decisions made. There are three types of affiliation agreements: master affiliation agreements, school of medicine affiliation agreements and educational program affiliation agreements.

—*Master Affiliation Agreement*.—There will be one Master Agreement for each college/university with which a facility has an agreement. It will be signed by the Facility Director, the leading official at the educational institution, and the Network Director. The generic umbrella of the master affiliation agreement constitutes both the philosophical and legal basis for numerous specific corollary agreements that may be executed among components of VA and the affiliates. Such corollary arrangements may address academic programs as well as health care delivery arrangements that may be executed under the enabling umbrella of the master affiliation agreement. They may take the form of contracts, memoranda of understanding, performance guidelines, leases, written agreements which cover academic or research partnerships, as well as shared services, facilities, equipment or other resources that support the affiliation. Additional agreements may include VISN-wide coordinating agreements, or local multi-affiliate sharing agreements where relevant. Failure to agree on the details of one or more corollary agreements made as a part of an affiliation agreement should not necessarily preclude approval of the master affiliation agreement, but should constitute the basis for planning and for future interaction.

—*School of Medicine Affiliation Agreements*.—The Medical School Memorandum of Affiliation specifies unique aspects of affiliations between VA and schools of medicine and will be signed by officials in the medical school and the university as well as VA officials at the facility and network levels.

—*Educational Program Affiliation Agreements*.—The Educational Program Affiliation Agreement applies to an individual program in a medical school and to all other non-medical school affiliations. This includes a separate educational program agreement for each discipline-specific educational program that sends trainees to VA. It will be signed by the VA Network Director or his/her delegates and the responsible official at the educational program.

MEMORANDUM OF AFFILIATION MASTER AGREEMENT BETWEEN THE DEPARTMENT OF VETERANS AFFAIRS (VA) AND THE UNDERSIGNED EDUCATIONAL INSTITUTION

VA NETWORK:_____

VA TREATMENT FACILITY (OR FACILITIES):_____

NAME OF EDUCATIONAL INSTITUTION:_____

PREAMBLE

The provision of education for future healthcare providers and the conduct of research are statutorily defined as missions of the Veterans Health Administration. Building on the long-standing, close relationships between the U.S. Department of Veterans Affairs (VA) and the nation's academic institutions, VA seeks to play a leadership role in reshaping the education of future health-care professionals to help meet the rapidly changing scope and complexity of the nation's health-care delivery system. It is the intent of VA to maintain its long-standing practice of effective affiliations with educational institutions for the purposes of contributing to continued excellence in VA patient care and conducting joint academic programs that address health manpower needs throughout VA and the nation.

From its first forging in 1946, the purpose of affiliations has been to enhance the delivery of patient care. Within this purpose the education and research missions are intricately interwoven and complementary to the patient care mission.

At is finest, an affiliation agreement articulates a "one campus" concept for the two parties. To the extent possible, it establishes the goal of one standard for patient care, one standard for resident and student education, one standard for research, and one standard for faculty appointments. The parties to the affiliation agreement also seek to avoid duplication of academic assets and where mutually beneficial to enter into legal agreements to share patient care delivery services, facilities, equipment, and other resources that support the affiliation. The parties enter into this affiliation in a spirit of mutual benefit to be achieved through an equitable contribution of resources.

COROLLARY AGREEMENTS

The generic umbrella of the affiliation agreement is critical to the affiliation because it forms the philosophical and in some cases, the legal basis for numerous specific agreements that may be executed between components of the affiliate and VA. Affiliation agreements with individual academic institutions may lead to agreements in a number of different academic programs and for a number of different healthcare delivery arrangements that may be executed under the umbrella of the affili-

ation agreement. The success of the affiliation must be judged in the aggregate—that is, a balanced judgment of the tradeoffs and values of all the arrangements entered into between the affiliated parties.

One or more corollary or related specific agreements may be entered into between the parties to the master affiliation. These arrangements or agreements may involve any component of the Academic Medical Center, College or University and the local VA health-care facilities and may be in the form of contracts, memoranda of understanding, performance guidelines, leases, or other written agreements which cover academic or research partnerships, shared services, facilities, equipment or other resources that support the affiliation. Additional agreements may include Veterans Integrated Service network—wide coordinating agreements, or local multi-affliate sharing agreements where relevant. These may include any of the following:

—memorandum of affiliation with a school of medicine
—disbursement agreements for the payment of medical residents while at VA facilities
—sharing agreements or scarce medical specialist services agreements with the affiliate or is faculty
—consulting and attending arrangements
—research agreements
—authorized arrangements for the use of space
—memorandum of affiliation with associated health educational programs
—general education agreements
—specific programmatic education agreements
—other agreements that may be advantageous to the affiliated parties

TERMS OF AGREEMENT

This agreement, when duly executed and approved by the Department of Veterans Affairs (VA), authorizes VA, its Veterans Integrated Service Networks and the listed VA facilities, to affiliate with the academic institution for the purposes of enhanced patient care, education and research. VA and the affiliated academic institution have a shared responsibility for the academic enterprise. In coordination with VA staff, the faculty of the academic affiliate has primary responsibility for the assignment and supervision of students and/or residents in their academic program(s). VA retains full responsibility for the care of patients, including the administrative and professional functions pertaining thereto. While in the VA facility, students and residents are subject to VA rules and regulations. Students will receive an orientation to the VA facility. Faculty members and facility staff supervisors are to evaluate the student's performance in mutual consultation and according to the guidelines outlined in the approved curriculum.

VA treatment facilities, or groups of VA treatment facilities as appropriate, will establish an Affiliation Partnership Council made up of representatives of the affiliated health professional schools. The Council will act as the strategic planning and coordination body for all academic matters involving VA and the affiliates, and will coordinate the tracking of measurable outcomes that emerge from reviews of the academic partnerships. The Council will inform VA of affiliate matters such as strategic planning, program direction or budgetary issues affecting VA. Topical or discipline specific subcommittees to address specific management or strategic interests may be developed as needed in collaboration with the academic and VA leadership.

The affiliate complies with Title VI of the Civil Rights Act of 1964, Title IX of the Education Amendments of 1972, section 504 of the Rehabilitation Act of 1973, Title III of the Older Americans Amendments of 1975, the Americans with Disabilities Act of 1992, and all related regulations, and assures that it does not, and will not, discriminate against any person on the basis of race, color, sex, creed, national origin, age or handicap under any program or activity receiving Federal financial assistance.

Nothing in this agreement is intended to be contrary to State or Federal laws. In the event of conflict between terms of this agreement and any applicable State or Federal law, that State or Federal law will supersede the terms of this agreement. In the event of conflict between State and Federal laws, Federal laws will govern. Nothing in this agreement grants to the educational institution or the Partnership Council any legal authority to exercise control over any VA program or facility. Ultimate responsibility for the control and operation of VA facilities and programs rests with VA.

Periodic reviews of academic programs and policies will be conducted as necessary under the auspices of VA's Chief Academic Affiliations Officer.

This agreement is in force until further notice; it may be terminated in writing at any time by mutual consent with due consideration of patient care and edu-

cational commitments, or by 6 months advanced written notice by either party. [IF APPLICABLE: The affiliation agreement previously agreed to on (DATE) is hereby rescinded.]

_____
Name and Title of Responsible Official
for the Educational Institution (date)

_____
Name and Title of Responsible Official at
VA Health Care Facility (date)

_____
Network Director
Department of Veterans Affairs (date)

MEMORANDUM OF AFFILIATION SCHOOL OF MEDICINE AGREEMENT BETWEEN DEPARTMENT OF VETERANS AFFAIRS (VA) AND THE UNDERSIGNED SCHOOL OF MEDICINE

VA NETWORK:_____

VA TREATMENT FACILITY (OR FACILITIES):_____

NAME OF SCHOOL OF MEDICINE:_____

This agreement, when duly executed and approved by the Department of Veterans Affairs (VA), authorizes VA, its Veterans Integrated Service Networks and the listed VA facilities, to affiliate with the university school of medicine for the academic purposes of enhanced patient care, education and research. VA and the affiliated school have a shared responsibility for the academic enterprise. The school accepts primary responsibility for the integrated education programs conducted with VA; and VA retains full responsibility for the care of patients, including administrative and professional functions pertaining thereto. Responsibilities are to be shared as follows:

1. *The Medical School*

a. Nominates membership for the VA Affiliation Partnership Council and its subcommittees; membership will include the Medical School Dean and senior faculty members from appropriate divisions of the medical school.

b. Nominates faculty to serve as VA medical staff in the number and with the qualifications agreed to by the school and VA.

c. Through the VA facility Director and the medical staff, participates in the supervision of integrated academic programs at VA. VA staff members who are also faculty members are responsible for student and house staff supervision for educational purposes but may delegate responsibility to non-faculty VA staff members under unusual circumstances.

d. Nominates residents and fellows for academic programs operated jointly by VA and the affiliated school; residents and fellows shall have the qualifications agreed upon by the school and VA.

e. Consults with the Director in medical school decisions such as strategic planning, program direction and budgets that may directly affect VA.

2. *Department of Veterans Affairs, its Veterans Integrated Service Networks and component VA facilities*

a. Operate and manage the VA facility.

b. VA treatment facilities or groups of treatment facilities as appropriate will establish an Affiliation Partnership Council made up of representatives of affiliated health professional schools. The Council will act as the strategic planning and coordination body for all academic matters involving VA and the affiliates, and will coordinate the tracking of measurable outcomes that emerge from reviews of the academic partnerships. The Council will inform VA of affiliate matters such as strategic planning, program direction or budgetary issues affecting VA. Topical or discipline specific subcommittees to address specific management or strategic interests may be developed as needed in collaboration with the academic and VA leadership to address specific management or strategic interests.

c. Appoint qualified physicians, dentists, and other health care professionals, as appropriate, to full-time and regular part-time staff of the facility. Receives nominations from the Medical School Dean for faculty appointments to VA staff and welcomes medical school nominations for non-faculty staff positions. The appointed VA staff, including chiefs of service, are responsible to their immediate supervisors.

d. Consider the attending and consulting staff end trainees for appointment who are nominated by the school.

e. Cooperate with the medical school in the conduct of appropriate academic programs of education and research.

3. *Director, VA Health Care Facility (or equivalent title)*

a. Is responsible for the operation of the facility.

b. Cooperates with the Affiliation Partnership Council and its subcommittees in the conduct of academic programs and in the evaluation of participating individuals and groups.

4. *Chief of Staff, VA Health Care Facility (or equivalent title)*

a. Is responsible to the Director for the professional health care operations covered by the affiliation agreement.

b. Cooperates with the Affiliation Partnership Council and its subcommittees and the affiliated education institutions in the direction and conduct of academic programs.

5. *Chiefs of Services, VA Health Care Facility (or equivalent title)*

a. Are responsible to their superiors in VA for the conduct of their services.

b. With the assistance of the health care facility staff, and in cooperation with consulting and attending staff, assist faculty members in the supervision of the academic programs that are the subject of this agreement and are within their respective services.

6. *Full-time and Part-time VA Staff*

a. Are responsible to their supervisors in VA for the discharge of their responsibilities.

b. Participate in the academic programs within their respective services. Those staff with faculty appointments are responsible for the supervision of the education of students and house staff on their service, and may only delegate supervision in unusual circumstances to non-faculty staff. All VA staff who are delegated such supervision must be appropriately credentialed and privileged.

7. *Attending Staff*

a. Are responsible to the respective chiefs of services while serving as attending physicians for the VA facility.

b. May be full or part-time staff, consulting and attending, or without compensation.

c. Accept responsibility for the proper care and treatment of patients in their charge, including the supervision of students and house staff.

d. Cooperate in achieving the education and research objectives of the academic programs in which they participate.

e. Hold faculty appointments in the medical school, or are outstanding members of the profession with equivalent professional qualifications acceptable to VA.

8. *Consultants*

a. Are members of the faculty, have professorial rank or have equivalent professional qualifications acceptable to VA, and are subject to VA regulations concerning consultants.

b. As representatives of the school, participate in and are responsible for the integrated academic programs of the affiliated VA health care facilities subject to current VA policy and regulations.

c. Make available to the Director, Chief of Staff, and the appropriate chief of service the benefit of their professional advice and counsel.

TERMS OF AGREEMENT

The affiliate complies with Title VI of the Civil Rights Act of 1964, Title IX of the Education Amendments of 1972, section 504 of the Rehabilitation Act of 1973, Title III of the Older Americans Amendments of 1975, the Americans with Disabilities Act of 1992, and all related regulations, and assures that it does not, and will not, discriminate against any person on the basis of race, color, sex, creed, national origin, age, or handicap under any program or activity receiving Federal financial assistance.

Nothing in this agreement is intended to be contrary to State or Federal laws. In the event of conflict between terms of this agreement and any applicable State or Federal law, that State or Federal law will supersede the terms of this agreement. In the event of conflict between State and Federal law, Federal law will govern. When furnishing professional services covered by this agreement, protection of faculty members and students of the affiliated institutions from personal liability while at VA health care facilities will be that which is provided under the Federal Tort Claims Act, as implemented by 38 U.S.C. 7316. Nothing in this agreement grants to the educational institution or the Partnership Council any legal authority to exercise control over any VA program or facility. Ultimate responsibility for the control and operation of VA facilities and programs rests with VA.

Periodic reviews of academic programs and policies will be conducted as necessary under the auspices of VA's Chief Academic Affiliations Officer.

This agreement is in force until further notice; it may be terminated in writing at any time by mutual consent with due consideration of patient care and educational commitments, or by written notice by either party 6 months in advance of the next training experience. [IF APPLICABLE: The affiliation agreement previously agreed to on (DATE) is hereby rescinded.]

_____
Name and Title of Responsible Official
for the School of Medicine (date)

_____
Name and Title of Responsible Official at
VA Health Care Facility (date)

_____
Name and Title of Responsible Official
for the Educational Institution (date)

_____
Network Director
Department of Veterans Affairs (date)

MEMORANDUM OF AFFILIATION EDUCATIONAL PROGRAM AGREEMENT BETWEEN THE DEPARTMENT OF VETERANS AFFAIRS AND THE UNDERSIGNED EDUCATIONAL PROGRAM

VA NETWORK:_____

VA TREATMENT FACILITY (OR FACILITIES):_____

NAME OF EDUCATIONAL INSTITUTION:_____

PROGRAM AND DEGREE:_____

This agreement, when duly executed and approved by the Department of Veterans Affairs (VA), authorizes VA, its Veterans Integrated Service Networks and the listed VA facilities, to affiliate academic purposes of enhanced patient care' education or research. The faculty of the affiliate has primary responsibility, in coordination with VA staff, for the assignment and supervision of students and/or residents in their academic program(s). VA retains full responsibility for the care of patients, including administrative and professional functions pertaining thereto. While in the VA facility, students are subject to VA rules and regulations. Students will receive an orientation to the VA facility. Faculty members and facility staff supervisors are to evaluate the student's performance in mutual consultation and according to the guidelines outlined in the approved curriculum.

VA treatment facilities or groups of treatment facilities as appropriate will establish an Affiliation Partnership Council made up of representatives of affiliated health professional schools. The Council will act as the strategic planning and coordination body for all academic matters involving VA and the affiliates, and will coordinate the tracking of measurable outcomes that emerge from reviews of the academic partnerships. The Council will inform VA of affiliate matters such as strategic planning, program direction or budgetary issues affecting VA. Topical or discipline specific subcommittees to address specific management or strategic interests may be developed as needed in collaboration with the academic and VA leadership to address specific management or strategic interests.

The affiliate complies with Title VI of the Civil Rights Act of 1964, Title IX of the Education Amendments of 1972, section 504 of the Rehabilitation Act of 1973, Title III of the Older Americans Amendments of 1975, the Americans with Disabilities Act of 1992, and all related regulations, and assures that it does not, and will not, discriminate against any person on the basis of race, color, sex, creed, national origin, age or handicap under any program or activity receiving Federal financial assistance.

Nothing in this agreement is intended to be contrary to State or Federal laws. In the event of conflict between terms of this agreement and any applicable State or Federal law, that State or Federal law will supersede the terms of this agreement. In the event of conflict between State and Federal laws, Federal laws will govern. When providing professional services covered by this agreement, protection of faculty members and students of the affiliated institution from personal liability while at a VA health care facility will be that which is provided under the Federal

Tort Claims Act, as implemented by 38 U.S.C. 7316. Nothing in this agreement grants to the educational institution or the Partnership Council any legal authority to exercise control over any VA program or facility. Ultimate responsibility for the control and operation of VA facilities and programs rests with VA.

Periodic reviews of academic programs will be conducted as necessary under the auspices of VA's Chief Academic Affiliations Officer.

This agreement is in force until further notice; it may be terminated in writing at any time by mutual consent with due consideration of patient care and educational commitments, or by written notice by either party 6 months in advance of the next training experience. [IF APPLICABLE: The affiliation agreement previously agreed to on (DATE) is hereby rescinded.]

_____
Name and Title of Responsible Official
for the Educational Program (date)

_____
Network Director or delegates
Department of Veterans Affairs (date)

STATE HOME PROGRAM

*Question.* VA's budget would cut the state home construction grant program by $6.4 million, down to $41 million. VA's reported cost for providing care in VA nursing homes is considerably higher than its costs for doing so in state veterans homes. While VA's daily per patient cost was $213.17 for veterans in VA homes in fiscal year 1995, it was $35.37 for veterans in state homes. Why is VA cutting this cost-effective program for which there is almost $200 million in priority projects awaiting funding?

Answer. The level requested was determined on the need to balance a number of priorities given overall resource constraints.

VETERANS EQUITABLE RESOURCE ALLOCATION SYSTEM

*Question.* VA recently changed its resource allocation methodology to ensure similar access to care for veterans who have similar eligibility priority. VA should be commended for taking the important step of improving the fairness of its resource allocation methodology.

However, concerns remain that "VA has not determined the 'right' amount of dollars that need to be shifted to ensure equity of access," according to GAO. GAO is concerned that "VA has not adequately determined the reasons for differences between VISN's in costs per veteran-user. Without a better understanding of why the costs vary, VA cannot, with any certainty, determine the appropriate amounts of resources to shift among VISN's". We know that differences in efficiency are a major factor in cost-per-patient, but not the only factor.

What is VA doing to explore other factors that might explain why certain networks have lower costs per patient-user?

Answer. As explained in the VERA Briefing Book, age of veterans, energy, labor and pharmaceutical cost were evaluated in the planning stages of VERA to determine if additional adjustments to the national price were warranted. It was found that there was little variation in the average and median age of patients among networks; energy as a percent of total costs varied little among networks, and in fact constituted a very small portion (1–2 percent) of the network budgets and; over 90 percent of pharmaceuticals are purchased through the federal supply system—resulting in equal network pricing. However, it was recognized that some factors affecting the cost of a patient's care vary by geographic region and cannot be controlled by VA management. To account for such differences, adjustments were made to the fiscal year 1997 national price to reflect differences in the cost of labor. Additional allocations to account for the differences in support for education, research and equipment and non-recurring maintenance are also made as components of the VERA methodology. Also, to the extent veterans are sicker and require more health care, the networks will get more resources by virtue of the Special Care price. Networks receive $35,707 for each veteran with more intensive health care needs. For example, VISN 3 in New York received $366.1 million—more than any other network—for Special Care patients in fiscal year 1997.

*Question.* Does VA plan to "fine-tune" VERA in fiscal year 1998 and beyond?

Answer. There are several mechanisms for adjustments to the resources allocated to networks through VERA. Annually, as new data about the historic workload patterns for each network become available, resource allocations for future fiscal years

can be estimated. In May 1997, new workload and cost data will be available for incorporation into simulations for the fiscal year 1998 allocation. Secondly, there are workgroups that are looking at each component of the VERA model (workload volume, special programs, care across networks, geographic prices, education support, research support, equipment and non-recurring maintenance, and data validation). The majority of the recommendations from the workgroups will impact the fiscal year 1999 budget allocation, and there are a few changes under consideration for the fiscal year 1998 allocation that amount to "fine-tuning" research support, education support, equipment and non-recurring maintenance. In addition to these annual mechanisms there is a third process, which while not directly impacting the funding allocated through the VERA model, does impact the allocations to the networks. We are maintaining a funding reserve in headquarters to assist networks in the unlikely event that the current level of patient care is threatened. The reserves will be used, if needed, to maintain quality and level of services.

*Question.* How is VA addressing the questions raised by GAO about the VERA model and its March 18, 1997, testimony to the House Committee on Government Reform and Oversight?

Answer. VA's position is that GAO's comments overlook many of the improvements that VERA makes over past resource allocation methods. Specifically, VERA is designed to correct past funding inequities, simplifies complex resource allocation processes, and is understandable to all VA stakeholders. GAO's chief criticisms of VERA are that it may not distribute the "right" amount of dollars, that VA has not adequately determined the reasons for differences between VISN's in costs per veteran user, and that the allocation model is not based on total veteran population.

VA contends that there is no way of knowing the "right" amount of dollars. We do know that past methods failed to allocate dollars in an efficient manner. For example, under the old system VISN 3 spent $6,500 per patient while VISN 18 spent $3,000. VERA bases per patient spending on a national price with an adjustment for differences in the health care needs of veterans, in the cost of labor support for research and education, equipment, and non-recurring maintenance. We have also spread the impact of VERA over several fiscal years so that VISN's can continue to serve current users at the same level of quality.

DECISION SUPPORT SYSTEM

*Question.* According to GAO, there continues to be concerns with VA's Decision Support System. DSS is a software system to help provide managers data on patterns of care and patient outcomes as well as their resource and cost implications. The usefulness of the system depends on the completeness and accuracy of the data going into the system and GAO has stated in recent testimony "VA still has not adequately focused on improving the completeness and reliability of data entered into the feeder system. Although the draft business plans developed by the 22 VISN's generally discuss goals and timetables for implementing DSS throughout the network, they identify no plans for improving the completeness and accuracy of the data feeding into DSS". What is VA doing to address these important concerns? How will VA ensure the networks make this a priority?

Answer. This is an ongoing issue, especially during the first twelve to eighteen months of technical implementation. The Chief Network Officer and the Network Directors have improved the DSS system report with DSS staff to identify facilities which need to place greater emphasis on this program and the supporting data input.

VETERANS BENEFITS ADMINISTRATION PENDING CLAIMS

*Question.* Pending claims are projected to increase at the end of 1997 relative to the end of 1996 by 5 percent to 360,000 claims. Furthermore, productivity—measured by the number of claims completed—is tending downward for each of the years from 1996 to 2002.

Why is the backlog increasing and productivity decreasing?

Answer. The Compensation and Pension Service (C&P) fiscal year 1998 Business Plan projected a pending workload of 360,000 at the end of fiscal year 1997. As of March 31, 1997, six months into fiscal year 1997, the pending workload was 393,240 and it is unlikely that we will be able to make any substantial timeliness improvement during the last six months of fiscal year 1997.

A number of factors contributed to this latest performance trend. During the first six months of fiscal year 1997, a substantial number of hours was invested in the training needed to move toward the consolidation of Adjudication and Veterans Services Divisions, a necessary investment for long-term service improvements; the number of reopened compensation claims received increased by approximately 20

percent due primarily to change in hospital eligibility criteria; and labor intensive reviews were conducted on approximately 4,485 Persian Gulf War claims.

Because of the above referenced circumstances and the resultant growth of pending work during the first half of the fiscal year, it is unlikely we will attain our fiscal year 1997 interim goals. We have identified new dollars out of general operating monies for overtime and are distributing those to the field at this time. We intend to use overtime funds to process rating related claims and reduce our appellate workload. We will also continue to aggressively broker the workload between regional offices to ensure maximum utilization of resources. These efforts will move us back toward target in fiscal year 1998, although perhaps not as quickly as originally envisioned.

Through our Business Processing Reengineering (BPR), we expect an improvement to the totality of the product we deliver. We expect the quality levels to improve to at least a 97 percent level of accuracy and the timeliness of claims processing to improve to levels that meet customer and stakeholder expectations.

In addition, we can well expect a higher level of satisfaction for the veterans with our service and a higher level of satisfaction for our employees. All these performance measures are important to the compensation and pension product we deliver. Production alone, that is, claims produced during a given period, is not the whole product.

BUSINESS PROCESS REENGINEERING

*Question*. VBA is projecting significant improvements in the time it takes to process a claim, through the implementation of business process reengineering in each of its 58 regional offices, which is to be fully implemented by 2002.

As I see it, BPR is in large part what this Subcommittee has advocated for years—a streamlining and simplification of the adjudication process through case management, and a focus on improving the quality of work the first time around.

According to your BPR plan, a 20 percent improvement in productivity can be achieved. Where it currently takes 123 days to process an original compensation claim, it would take 53 days once BPR is fully implemented.

While we support the goal, we haven't seen any analysis as to how it could result in such improvements.

Can you explain how BPR will result in such dramatic improvements?

Answer. The answer to the question is in two parts: the first involves the analysis we have done using a sophisticated simulation model to represent the effects of proposed changes and the second has to do with the specific initiatives that we propose and why.

*Workload model analysis*.—During early 1996, data was collected on 1,200 active claims at four regional offices. Three of those offices, St. Louis, Milwaukee, and Des Moines, were selected because they were the offices which performed among our best in fiscal year 1994 under the current procedures and measured by current indicators. The reasoning for selecting these stations was that if they characterized the best that could be achieved with current processes and management, and if we could affect improvement in them, then we could assure system wide improvement. The concern was that if we modeled stations that were not our top performers we ran the risk of fixing local processing inefficiencies that would not generate system wide improvement. A fourth station, Baltimore was included for administrative purposes.

During the data collection period we collected information on the "task time" for completing various tasks associated with awards, the time cases wait for an employee to work or "queue time" and we were able to identify what are called the "transition probabilities" of a case moving from one work station to another. Finally, we collected a sample of cases from each regional office where we asked them to provide us with specific information on the kinds of development (i.e., service medical records, private medical evidence, VA examinations, income, service verification, etc.) undertaken. We asked when the evidence gathering began, what kind, when and whether we got an answer. From this exercise we were able to develop what we refer to as "wait time." With these four key elements and a sound modeling of the current process we were able to closely replicate actual performance for the nation in 1994. This data model demonstrated in the "as is" environment that there was a significant amount of rework in our system as well as significant queue times. It identified development as a potential weakness, it clearly identified the consequences of the highly complex nature of the current pension program, and it showed the multiple hand-offs that exist in the current system and the resulting built in queue times throughout the system.

Based on the information that we received from the model, stakeholder interviews, benchmarking with public and private sector leaders in various phases of our

business process, Internet searches, and discussions with other nations regarding their veterans claims process, we developed a series of high level requirements that, if fulfilled, potentially would result in better service. Those changes were run through a "to be" model which was a model created with the recommended changes in process, technology, training and partnership built in. We then input into that model projected workloads to determine the processing times. The model suggests that we can achieve the kinds of performance improvements in our plan.

The model suggests that there is a synergistic effect from the implementation of all the changes which is greater than the whole of all the individual initiatives. Likewise, the model's performance projections are based on the assumption that VA will successfully implement all of the changes recommended. Should individual elements of the plan not be accomplished the model would have to be re-run to determine the impact on projected performance.

*Process changes*.—Based on the high level of rework demonstrated by the model, six necessary changes in current process were identified. Those changes are enhanced training with certification to improve the skills of the work force. Second, a reduction in the number of hand-offs to no more than three positions rather than the current eight that deal with claims processing. The current process makes no one individual or limited group of individuals accountable for the timely processing of a complete claim. Rather, numerous individuals complete pieces of the claim process without full understanding of the affect their efforts have in delivering service. In addition to improved accountability, by reducing the number of hand-offs we believe that we can significantly reduce queue times since all necessary actions will be accomplished by one individual rather than a series of hand-offs where the case would again sit in employee's queues. Third, the amount of rework, especially when examined in the cases requiring rating, strongly suggested that it is essential to greatly enhance the skill level of those individuals who initially handle claims so that essential claims development is accomplished—correctly and promptly—at one time. This drove the view that it was essential to more actively engage both the veteran and his/her service representative in a personal dialogue to insure that all issues were clearly identified, all sources of evidence identified, and that there was an understanding among all parties about which parts of the development could be done more efficiently and timely by the claimant and/or the representative than the VA, while recognizing that VA would do the development independently as well. This together with a case management approach designed to keep the claimant advised of the status of the pending claim with realistic time estimates will, we believe, significantly reduce the amount of time needed to resolve claimant inquires.

Fourth, we recognized that the appeals workload was increasing in complexity and frequency while extending significantly in processing length. The creation of the Decision Review Process with difference of opinion authority will, we believe, allow us to resolve many issues much earlier in the process without the need for them to go to the Board of Veterans Appeals (BVA). Those that do go will go quicker and with clearer issues under consideration.

The extremely high rework rate among income based awards and the very high number of FTE (full time employee equivalent) tasked to administer this program when compared to the much larger compensation program called for the fifth effort which involves pension simplification and rule clarification. This effort is seen as a source for additional resources to process compensation claims while concurrently improving service in pension with fewer overpayments. Likewise, in this fifth effort, certain modifications to rules were seen as greatly reducing the amount of handling required for a number of types of claims. Examples of these include changing the burial process to become an automated sub-routine of First Notice Death processing. This adaptation would reduce the number of burial claims requiring manual processing by about 90 percent and issue payment in one day. Similarly we would change some match program requirements for due process. We would propose replacing pre-determination due process with concurrent due process which will significantly reduce the number of second handling of award adjustments while at the same time reducing the size of overpayments. Pension simplification holds the potential of greatly reducing the number of award adjustments needed and making the income stream of our beneficiaries more predictable and certain. Again, task time is saved that can be devoted to other claims.

Finally, initiatives to insure the deployment of a new relational data base, award processing and payment system—VETSNET—is essential to the vision. Without VETSNET, it will be difficult to achieve the following:

—A better interaction with veterans.

—The ability to address a large number of veteran inquiries with automatic voice response.

—The ability of employees dealing directly with claimants to have full on-line information on pending claims.

—The ability to collect and analyze critical data needed for process management and strategic planning.

Traditionally, the regional offices have resisted central office directives on how they should do business.

*Question.* Have the regional offices "bought into" this new process?

Answer. The senior management of all regional offices, Directors, Adjudication Officers and Veterans Services Officers were brought together in December 1996 and thoroughly briefed on the process. We solicited volunteers from across the country to participate in the implementation planning phase of the process and received far more volunteers than we were able to utilize. We have provided each employee in VBA with a detailed written explanation of what is transpiring.

We have also provided a video for them to view with comments from senior management on our movement and why it is necessary to achieve world class customer service. We believe that the efforts of local offices to go to customer service centers, the heightened awareness of the need for improved quality and service and the recognition by all parties of the declining resource base indicate that most staff everywhere accept that this is a sound plan.

NAPA's testimony says "VBA nationally operates in too permissive a manner with little accountability for the achievement of specific results across all 58 regions. There are numerous cultural short circuits to accountability."

*Question.* How can we be confident there will be consistent implementation of the new system you plan, and how will you ensure appropriate accountability for results?

Answer. Our implementation plan identifies specific over the next five transition years. Many of our initiatives will be tested at two laboratory stations, Seattle and Houston, to document the level of service enhancement. This will also insure that each change is the most efficient and consistent process possible prior to exporting it to other offices. We believe that we are building a rollout protocol which will accurately demonstrate the effectiveness of initiatives, modify those that don't work as originally conceived and provide data about the system consequence if specific initiatives are either not funded, passed or fail. Finally, customer service elements are being inserted into all employee's performance standards.

VHA is a much larger and complicated organization than the VBA, yet it has managed to implement a major restructuring in the last few years, with cost-savings, more veterans served, and improved patient care.

*Question.* Are there lessons-learned from VHA that VBA will be using to improve the success of transition?

Answer. Yes, VHA's lessons about the need for communication with stakeholders, veterans and employees is recognized. A special transition and communication task force has been established to insure that the high level of communication needed will occur. Lessons learned in enhanced cooperation with VHA and insuring that we maintain close ties to them are essential so that, together, we can deliver a seamless line of benefits to veterans. In addition, we too, like VHA, will ensure that goals and objectives of VBA managers are derived from and support national goals and objectives and are part of the performance plans for these managers at all levels. This is a recommendation of the Adjudication Commission—certainly in concert with Government Performance and Results Act (GPRA)—that VBA fully endorses.

*Question.* Does VA's budget include sufficient funds to undertake the information technology investments recommended in the BPR plan?

Answer. The fiscal year 1998 budget contains sufficient funds to implement the information technology (IT) needs that can be accomplished next year. However, it should be noted that external evaluations of VBA (such as those conducted by the Veterans Claims Adjudication Commission and NAPA) could cause delays in VBA's IT plans as program recommendations are studied and assessed.

*Question.* What is VA's long-term training strategy to address the human resource element of BPR, and are adequate funds requested?

Answer. Our long term training strategy involves the creation of three service delivery positions, rather than the current eight, each of which will have a sophisticated, validated and testable training protocol which will result in certification that a graduate of the training is knowledgeable in his or her position. Attainment of the journeyman status in each position will require certification testing.

The first phase of that training—training for rating specialists—is currently under construction. We anticipate having the very first portions of that training available for use in the field in 1997. The training package for veteran service representatives—the front end job, is currently awaiting funding will be requested in

the 1999 budget. The training package for Decision Review Officers is likewise awaiting initial funding in the 1999 budget.

The training packages that we are developing utilize the rigorous ISD (instructional systems design) methodology which is a rigorous one requiring substantial development time. We believe however that it is the best approach to adult learning available. The VSR (Veteran Service Representative) and Rating VSR packages will require approximately three years to develop while the Decision Review Officer course will take about 18 months.

During the interim we have identified some existing materials which will aid us in making the transition.

Last fall, the Congressionally-chartered Veterans' Claims Adjudication Commission—known as the Melodosian Commission—made recommendations for improving the veterans claims processing system. The Commission concluded "The problems of the adjudicative and appeals processes cannot be solved by fine tuning. The system has become cumbersome and outmoded."

*Question*. Do you believe your Business Process Reengineering efforts go beyond fine-tuning?

Answer. The C&P redesign is a radical overhaul of the way VBA does business. It eliminates the assembly line approach to claims processing, designates responsibility and accountability, provides the training tools needed for staff to become fully competent, forges a new relationship with veterans and service organizations, seeks to streamline rules and procedures and takes advantage of modern information, telecommunication and rules based technology to deliver benefits on time, without hand-offs from multiple access points. While the basic elements of the adjudicative process remain the same—receipt of claim, development of evidence, decision and notification—the manner in which these steps occur is significantly different.

The Commission recommended a major overhaul of the process.

*Question*. What are your plans with respect to implementing the recommendations of the Melodosian Commission, and what is the time line?

Answer. The Department is developing a detailed implementation plan with respect to the recommendations of the Melodosian Commission. It should be noted that the Secretary has indicated that a large number of the recommendations of the Commission will be handled through the BPR process.

The BPR process is in the final stages of the "implementation planning" phase which we expect to be completed in the near future. During that intensive effort, teams put specific detail, costs, benefits and timelines on the higher level vision found in the "Case for Change." The result of the teams, work "Blueprint for Change" will be available for stakeholder review in June.

With respect to NAPA's concerns regarding VBA's ability to deliver on its BPR promises and that the BPR efforts need to be improved and broadened, NAPA's detailed views have not yet been widely available in the Department nor have we had an opportunity to analyze them and evaluate their validity. Needless to say, as indicted earlier, a detailed implementation strategy is in the final stages of production and will be available shortly.

NAPA is not optimistic about VBA's ability to deliver on its BPR promises, citing little improvement in VBA's ability to develop a clear, prioritized business plan within which resources are allocated only to critical priorities and the lack of capacity for strategic management. NAPA also says the BPR efforts needs to be improved and broadened.

*Question*. How do you respond to NAPA's criticisms, and what are your plans to remedy the fundamental management and leadership shortcoming NAPA identified?

Answer. VBA has not received the full, final NAPA report. When we receive it, we will review it with the Department and other appropriate stakeholders and develop a plan of action.

REGIONAL OFFICE RECONFIGURATION NEEDED

*Question*. NAPA recommends a reconfiguration of field operations, stating "the current structure of 58 regional offices is difficult at best to manage with any uniformity of policy implementation, and such a structure prevents optimal allocation of staff resources to service needs." NAPA recommends consolidation of the regional offices while maintaining the availability of local access by veterans to small, well-trained adjudication staffs dispersed throughout the nation.

What are your plans to meet this recommendation?

Answer. As we stated above, when we receive the full, final NAPA report, we will review it with the Department and other appropriate stakeholders and develop a plan of action.

PENSION PROGRAM SIMPLIFICATION

The BPR plan indicates the pension program needs to be simplified as VBA is spending more than 5 times as much administering pension than compensation. The program is unduly complex and simplification will reduce costs and improve customer service. The Melodosian Commission also recommended changes to the pension program.

*Question.* When will VA submit proposed legislation to Congress to simplify the pension program?

Answer. The BPR business plan incorporated pension simplification as part of its vision for claims processing. In January 1997, VBA created six BPR implementation planning teams. One of these teams was the Compensation and Pension (C&P) Service rules team. This team was tasked with preparing a legislative proposal to simplify the current pension program. The team completed its assessment in April 1997 and is finalizing the report which recommends specific pension simplification proposals. These recommendations will be reviewed by top VA management who will determine the legislative initiatives that will be submitted to Congress. We anticipate that pension simplification legislation will be submitted with VA's fiscal year 1999 Budget submission.

As part of the implementation planning phase a detailed data based analysis of the pension program was conducted and alternative approaches analyzed. A series of recommendations have been developed to simplify pension which will be included in the "Blueprint for Change."

REGULATORY CHANGES NEEDED

*Question.* The BPR plan notes, "Since 1911 COVA has been building a body of case law that often differs from VA's intent in preparing regulations." VBA has been in the mode of reacting to COVA decisions, rather than revising its regulations. The BPR report recommends "Rather than continuing to adapt to the Court's views in all cases, VBA should revise vague provisions to clarify and specify VA's position, relying on OMB and public review of proposed changes to surface, clarify and accommodate stakeholder concerns. VBA's concerted, short-deadline review and if needed, revision of key regulations will enhance accurate, fair and predictable claims processing decisions with fewer delays in delivering services to veterans."

What are VBA's specific plans to meet this aspect of the BPR recommendation?

Answer. In January 1997, VBA created six BPR implementation planning teams. One of these teams was the C&P Service rules team. This team was tasked with analyzing current regulations and their underlying statutes to determine what changes are needed to achieve the claims processing vision outlined in VBA's report titled: "Reengineering Claims Processing: A Case for Change." The team also reviewed rule changes that would clarify existing VA policy or enhance or simplify the claims process. Many of these issues were identified in the BPR business plan. The team completed its assessment in April 1997 and is finalizing the report recommending rules changes. These recommendations will be reviewed by VBA management, which will determine a course of action based on the team's recommendations.

As indicated in the previous answer, as part of the implementation planning phase a detailed analysis of regulations was conducted. A series of recommendations has been developed with respect to regulations which will be included in the "Blueprint for Change."

YEAR 2000

*Question.* What is VBA doing to ensure it will be Year 2000 compliant by January 1999—to allow for a year of testing? Is VA confident that it will be compliant in a timely manner? What is requested in the budget to address Y2K problems, and is this sufficient?

Answer. Long before the Year 2000 (Y2K) problem received the publicity it has today, VBA computer specialists realized there was a unique problem associated with this event. We have been making program changes in our benefit payment systems since the 1970's.

In 1991, VBA completed an initial analysis of all application systems to determine the extent of the problem. In 1993, work began on fixing our debt management systems, and in 1995 work began on making our Insurance system compliant.

In 1996, VBA set up a dedicated project team to manage the Y2K effort. A project manager was appointed and a team chartered. The first draft of our Y2K plan was prepared in July 1996. This plan is continually revised, enhanced and maintained.

We also established an inventory of all of our applications, third party products, and interfaces (data exchanges with other agencies).

VBA is in the Renovation phase of our Y2K project. As of 1 May, VBA has an estimated 158 applications and 9,088,343 Lines of Code (LOC). There are 30 applications that are currently compliant and in production. There are 10 applications that have been retired or removed. The percentage of compliant applications is 25 percent.

VBA set a goal of having all operating systems, applications and third party products, etc., compliant and tested by December 1998. This will allow one year to correct problems and to monitor the applications' execution.

On April 14, 1997, the first VBA payment system was fully certified and installed as Y2K compliant. The Restored Entitlement Program for Survivors (REPS) provides restored Social Security Administration benefits to approximately 48,500 beneficiaries. VBA pays this benefit to surviving spouses and children of veterans who died while on active duty prior to August 13, 1981, or who died as a result of injuries sustained while on duty before that date. The first payment cycle after "Year 2000" installation ran on April 24, 1997.

Third party vendor issues are of special concern to us, as well as the rest of the government. We continue to follow-up with our contractors in their efforts to determine whether their products are compliant.

To accelerate and provide more support for our compliance efforts, we are supplementing our staff with contractor support. We are in the process of putting contract vehicles in place for some of our applications requiring support in making them Y2K compliant. In addition, we created an oversight team that includes a senior technology expert from the Office of Management and VBA, assisted by contractors to oversee our Y2K effort. They will regularly report on the projects' progress to the Assistant Secretary for Management and the Under Secretary for Benefits, as well as Deputy Secretary Gober.

For 1998, VBA estimates a total of $11 million to address the Y2K compliance. This exceeds the amount requested in the President's budget submission by $4.5 million. This increase in the estimate is due to our need to accelerate our efforts by expanding the use of contractors, the need to replace third party software products, and personal computers that are not Y2K compliant.

BOARD OF VETERANS APPEALS

*Question*. Why is BVA's employment projected to decline, after several years of requesting increases? How will BVA produce 37,250 cases next year with 6 fewer staff?

BVA's cost-per-case has been declining for the past several years, yet is projected to increase in fiscal year 1998. Why?

Answer. Due to the significant improvements made in BVA's work process through previous staffing increases and other initiatives such as geographic realignment, VA decided not to request an increase in staffing for the Board in fiscal year 1998. VA wanted to ensure that total resources are maximized.

At the midpoint of the fiscal year, BVA productivity exceeded expectations as a result of overtime and other initiatives, and it is on course to decide around 41,200 appeals during fiscal year 1997—over 3,000 more than the current budget estimate. The following table shows how critical workload details would change if BVA is able to sustain this production level.

| | 1995 actual | 1996 actual | 1997 estimate revised | 1997 Actual through 3/31/97 | 1998 estimate |
|---|---|---|---|---|---|
| Appeals pending—start | 47,148 | 58,943 | 60,120 | ..... | 53,920 |
| Appeals received | 39,990 | 35,121 | 35,000 | ..... | 35,000 |
| Total workload | 87,138 | 94,064 | 95,120 | ..... | 88,920 |
| Appeals decided | 28,195 | 33,944 | 41,200 | 20,787 | 37,250 |
| Appeals pending—end | 58,943 | 60,120 | 53,920 | ..... | 51,670 |
| Average BVA response time | 763 | 596 | 478 | ..... | 506 |

The 37,250 decisions projected for fiscal year 1998 assumes an FTE of 494 and is derived from the same mathematical model which projected that 38,000 decisions would be produced with an FTE of 500.

*Question.* The number of appeals decided per FTE in BVA has been increasing steadily, to the current of 76 in fiscal year 1997. For fiscal year 1998, BVA estimates a slight decline to 75.4. Why is productivity projected to decline?

Answer. The model used by BVA to develop productivity projections is built around a fixed level of staffing devoted to all positions other than decision-making and decision-writing Board members and staff counsels. Through fiscal year 1995, as the transition was made to its current realigned structure, BVA reduced its administrative and professional support positions, together with its management and executive staffing requirements, to a combined base of 183 of its then current total staffing of 449 FTE. This support component remained a constant as the overall FTE rose during fiscal years 1996 and 1997. The number of decisions decided per FTE calculation is a BVA-wide per capita figure. Therefore, as only Board member and staff counsel positions—those directly involved in decision-making—were being increased, per capita productivity was projected to rise, and did rise, accordingly. Conversely, as BVA reduces from 500 to 494 FTE in fiscal year 1998, it will lose 6 positions directly related to decision production from the staffing mix. As the percentage of BVA's staffing composition directly involved in decision production declines, we project a slight decline in the BVA-wide per capita decision production. However, if BVA continues to exceed productivity expectations evidenced through the midpoint of fiscal year 1997, the appeals decided per FTE will increase.

*Question.* What is an appropriate number of appeals decided per FTE, and when do you believe BVA will attain that goal?

Answer. It is not possible to identify, in absolute terms, an "appropriate" number of appeals decided per FTE that can remain fixed in time due to a variety of uncontrollable variables. These variables individually and collectively affect the amount of Board member and staff counsel time, BVA's basic unit labor components, consumed in producing decisions on appeals. Among these variables are the number of individual issues appealed, the complexity of the issues, and the effects of precedential decisions of the Court of Veterans Appeals. Other variables that cannot be predicted or controlled include the volume and types of personal hearings that must be conducted. For example, conducting hearings at sites geographically removed from BVA's offices requires considerable travel time by Board members and, consequently, a reduction in Board members' time available for case review and decision-making.

For the fiscal year 1998 budget submission, the Board's performance objective in this area is to decide 75.4 appeals per FTE. We believe the decisions per FTE goals based on recent historical performance represent the most realistic productivity targets we can devise. Establishing annual per capita productivity goals allows the Board to adjust, at least partially, to changing dynamics in the decision-making environment.

*Question.* BVA's cost per case has been declining for the past several years, yet is projected to increase in fiscal year 1998. Why?

Answer. Cost per case is inversely related to decisions per FTE. Thus, the same factors that have resulted in a slight decrease in the projected number of decisions per FTE will result in a commensurate increase in cost per case.

Again, if BVA continues to exceed productivity expectations evidenced through the midpoint of fiscal year 1997, the cost per case will decline.

MAJOR CONSTRUCTION

*Question.* No new medical construction projects are proposed in the budget request. Does this reflect a new administration view that such projects should be put on hold until the VHA reorganization has been in place for a few years?

Answer. VHA is in a period of rapid internal and external change in healthcare delivery systems. The networks require additional time to assess the projected impact of the new resource allocation system (VERA), the reallocation of resources to primary care, the transformation from a facility-based system of care to a network-based system of care, and the eligibility reform legislation, among other things. Capital planning supports the results of this assessment and planning, and in this period of rapid change VHA is not at the point to assess the long range impact on capital requirements. In the first cycle of network planning, networks have focused on establishing a baseline of capital assets available, identifying each network's patient base and the healthcare services required by those patients. VHA will assess the progress made in the next planning cycle in translating the results of these analyses to action plans that may include the need for major construction.

*Question.* What are VHA's long-range major construction priorities? What is VA's new method for prioritizing construction projects conceived by the VISN's?

Answer. Potential capital projects to be implemented through the major construction program will be recommended by the Network Directors. The focus of the projects is anticipated to be on meeting the Mission Goals described in the Prescription for Change largely in the areas of shifting the emphasis of health care delivery from an inpatient orientation to a primary care/managed care, outpatient based system as well as to upgrade reduced but needed inpatient bed space. Nationally, the priority of each project will be determined on the basis of its value to the VHA system in implementing the Strategic Plan. The current VA Major Construction Prioritization System is being examined and revised to reflect the broad set of performance objectives contained in the Strategic Plan. This will include both quality and cost/benefit factors.

*Question.* Why is VA proposing funding for the Cleveland veterans cemetery when Detroit ranks higher according to VA's prioritization list, and has received initial EIS funding?

Answer. For the last decade, VA's policy on the establishment of new national cemeteries has been based on the findings in two Reports to Congress, one in 1987 and another in 1994. The Reports each identified ten areas of the country most in need of new national cemeteries based on concentrations of veteran population. The rankings in each report were not a priority listing, but a list depicting veteran population. Cleveland and Detroit were ranked in the top 10 in both reports (Cleveland was 4th in 1987 and 3rd in 1994 while Detroit was 5th in 1987 and 2nd in 1994).

Milestones in new cemetery projects develop at varying rates as steps in the process are completed. Cemeteries are not constructed in a specific order nor must one cemetery project be completed before another begins. As a segment of the development process is completed for a specific cemetery, such as the EIS or land acquisition, funding is usually requested for the next phase.

The schedule for the Cleveland cemetery project was ahead of Detroit. Congress provided EIS funds for Cleveland in fiscal year 1988, site acquisition funds in fiscal year 1991, and design funds in fiscal year 1997. No earmarked appropriation has ever been provided for an EIS for the proposed new cemetery in Detroit; funding for the EIS was provided from the VA's Advance Planning Fund. In April 1994, the Secretary advised the Michigan Congressional delegation, the Governor, and major veterans organizations that VA budgets will not support a new national cemetery in the Detroit area.

In June 1993, the Secretary reiterated and approved VA's policy to establish new national cemeteries in Albany, Cleveland, and Seattle and to continue progress to establish new national cemeteries in Chicago and Dallas/Fort Worth. The approval of these five sites permits VA to increase a level of service delivery consistent with veterans' expectations. By concentrating the locations in major metropolitan areas, the burial needs of large numbers of veterans will be served.

The President's fiscal year 1998 budget includes funding for the construction of a new national cemetery for the Cleveland, Ohio area. If funds are provided for this project, we anticipate opening the cemetery in the fall of 1999. This will be the sixth VA national cemetery to be constructed in those areas identified in a 1987 Report to Congress as most in need of burial sites for veterans. San Joaquin Valley National Cemetery in California was opened in 1992. Tahoma National Cemetery near Seattle is projected to open in September 1997. We expect to open Dallas/Fort Worth National Cemetery, Saratoga National Cemetery near Albany, New York, and a national cemetery near Chicago in the summer or fall of 1999.

The opening of these five new VA national cemeteries within a two-year time frame is unprecedented since the Civil War. VA must ensure full operation of these new cemeteries as its priority and assess their impact on the system.

MINOR CONSTRUCTION

*Question.* I understand VISN's are currently reviewing, prioritizing and selecting capital initiatives for the minor construction program for fiscal year 1998. What are the criteria for project selection? Does the VISN select the criteria, or does central office? Do the network's business plans include long-range minor construction priorities?

Answer. Capital initiatives for the minor construction program are expected to reflect the values and strategic objectives of the Veterans Health Administration (VHA) as set forth in VHA's Vision for Change, the Prescription for Change, and the Secretary's Performance Agreement with the White House. These documents identify specific values and objectives which have been incorporated into the respective performance plans for the network directors. These values and objectives are subsequently incorporated into the network strategic business plans and a capital strategy for implementation of the plan is included. This Capital Strategy includes

capital initiatives in the major construction, minor construction, NRM, leasing, and enhanced use programs as well as capital equipment initiatives. Headquarters provides guidance to the networks with regards to any expected areas of special emphasis such as Outpatient Improvements and Patient Environment. The network then identifies those capital initiatives and a capital strategy which best enable them to achieve these objectives within their local health care environment. Proper criteria for selection of capital initiatives include whether the initiative is consistent with the network's strategic business plan, how well it meets one of the network's stated values or strategic objectives, and the return on invested capital (in terms of either dollar savings or services provided). The Networks determine specific qualitative and/or quantitative methodologies to assess how well a capital initiative will meet these criteria.

BONE DISEASE RESEARCH

*Question.* In the fiscal year 1997 VA-HUD conference report, support was expressed for additional research activity focused on men with bone diseases at the VA. Further, the Committee urged the Department to prepare a long-term strategy for research in this area. Can you comment on the status of this request and the research activities the agency has initiated with respect to these diseases?

Answer. Osteoporosis and related bone disease remain areas of special emphasis for funding. In particular, osteoporosis and related bone disease fits into two of our current Designated Research Areas (DRA's)—Aging and Geriatrics; and Chronic Diseases. Our DRA's are in response to October 1996 recommendations made by the Research Realignment Advisory Committee. Post traumatic osteoporosis due to injury is an area of expanded collaboration with the Department of Defense. Projects in this area are taking place at the Rehabilitation Research and Development Center, located in the VA Palo Alto Medical Center. This Center focuses on degenerative bone disease and joint reconstruction and often partners with the National Aeronautics and Space Administration. In fiscal year 1996, VA investigators collaborated with the National Institutes of Health on seven projects in the area of degenerative bone disease. In fiscal year 1997, VA investigators are participating in over 100 projects in the areas associated with Osteoporosis.

REGIONAL OFFICE ADJUDICATORS' PERFORMANCE CRITERIA

*Question.* In this Subcommittee's report explaining appropriations for the Department of Veterans Affairs for fiscal year 1997, we directed the VA to establish performance criteria, including measures of technical proficiency and work quality, for regional office adjudicators. Have you developed and disseminated such criteria?

Answer. In previous discussions of this topic we have noted that performance standards do currently exist for each individual employee as a part of each person's Performance Plan. We have also said the sound performance plans include both quality and timeliness elements. These performance standards will continue until we move further into the transition/implementation phase of our BPR effort. Each employee does receive an annual appraisal of his/her performance based on the indicators in the Performance Plan. But as noted earlier, VBA will ensure that goals and objectives of VBA managers are derived from and support national goals and objectives and are part of the performance plans for these managers at all levels. These performance expectations will cascade down to those processing the claims. This is a recommendation of the Adjudication Commission—certainly in concert with GPRA—that VBA fully endorses.

*Question.* And, if so, are regional office adjudicators now operating under these new standards and what quality improvements have been attained?

Answer. The Human Resources task team for the implementation of the BPR vision has developed position descriptions, a transition plan, and performance evaluation policies to properly develop, reward, and train employees in the re-engineered claims processing environment. The task team's proposal will be presented to the VBA Strategic Management Committee at its June 1997 meeting.

CHANGE IN CURRENT CLAIMS PROCESS

*Question.* Your Business Process Reengineering Plan, which is incorporated in your GPRA business line plan in your budget submission, includes changing the current claims process to one which involves more direct interaction between VA employees and veterans and more personalized customer service to veterans. Logically, it would seem that this would require a greater investment of time in each claim by VA personnel and, as a consequence, require more staffing. Yet, your budget proposes to reduce staffing in the VBA by 543 FTE in fiscal year 1998 and reduce staffing in C&P alone by 100 FTE. How do you reconcile this seeming contradiction?

Answer. The attainment of the vision is predicated on the successful implementation of a number of BPR initiatives which are all interactive, a number of which emphasize closer, more personal, and frequent contact with veterans and greater responsiveness to their concerns.

In the vision, a partnership is forged with the veteran and his/her representative. This partnership implies increased accountability for certain actions, not only by VA personnel, but veterans and their representatives as well. The claimant is asked to assist in the claims process. VA will rely more on Veterans Service Organizations and County Service Officers for the up-front part of the claims process.

The VSR (veteran service representative), consulting with the veteran, focuses the issue, identifies all sources of evidence, and explains the claims process. Rule-based technology supports the VSR in this process to ensure the quick resolution of the claim. Routine actions are handled quickly, often at the initial contact. In addition, the vision emphasizes on-line electronic interfaces with internal and external entities. Most status calls will be answered through an automated voice response system.

Regulatory and legislative changes are needed to achieve the claims processing vision. We will seek these changes. Assumptions were made in C&P's 1998 Business Plan that these changes would be accomplished.

We believe that we can attain the vision with fewer FTE in the outyears if all BPR initiatives are funded and successfully implemented. During fiscal year 1997, we have experienced a temporary set back in the progress we are making toward reaching our timeliness goals and reducing our claims backlog. At the end of fiscal year 1996, the average processing time for original disability compensation claims was 144 days with 342,683 claims pending. As of March 31, 1997, six months into fiscal year 1997, the average processing time for original compensation claims was 132 days with a pending backlog of 393,240.

A number of factors contributed to this slippage, including the following:

—During the first six months of fiscal year 1997, over 228,000 hours were invested in training, as we move toward the consolidation of Adjudication and Veteran Service Divisions into Veteran Service Centers.

—During the first six months of fiscal year 1997, there was a significant increase (approximately 20 percent) in the number of reopened compensation claims received when compared to the first six months of fiscal year 1996 (primary cause—change in hospital eligibility criteria).

—During the first six months of fiscal year 1997, approximately 4,485 Persian Gulf War claims were re-reviewed. These reviews are labor intensive with an average review task time of 8 hours per review (total review time of 35,800 hours).

For the following reasons, we do not expect marked improvement in timeliness or a reduction in the backlog during the last six months of fiscal year 1997:

—Continued consolidation of Adjudication and Veteran Service Divisions into Veteran Service Centers which will require over 280,000 additional hours of training.

—The issuance of 230,000 outreach letters to DIC widow(er)s.

—The issuance of triennial EVR's.

—The adjudication of approximately 4,250 tobacco-related claims with a total projected task time of 46,200 hours.

—The completion of approximately 6,250 additional Persian Gulf War re-reviews and additional Persian Gulf War workload demands based on new information, amended regulations, or policy directives.

—The adjudication of Spina Bifida claims (approximately 2,000 cases).

—Dedication of resources to reduce remands and other appeal work.

Although it is unlikely that we will attain our fiscal year 1997 interim goals of 117 days for original compensation claims with 360,500 claims pending, we expect to be back on target in fiscal year 1998. We intend to use available overtime funds to process rating-related claims and reduce our appellate workload. We intend to continue aggressively brokering the workload between regional offices to ensure maximum utilization of resources. We intend to continue the re-allocation of available resources to the rating activity, consistent with our BPR vision.

COURT OF VETERANS APPEALS

*Question.* The Court of Veterans Appeals, on previous occasions, and recently in an order in the case of Ehringer v. Brown, has found it necessary to remind VA that it has the responsibility to devote sufficient resources to its counsel to fulfill its duty as an officer of the court to make timely filings in cases pending before the Court. The Court cited the well established principle that a government agency must bear

ultimate responsibility when the staffing pattern in that agency is sufficient to meet judicially imposed requirements. It is indicated that your Professional Staff Group VII attorneys routinely file multiple motions for extensions of time in cases in which proceedings are awaiting your briefs and other filings. At a time when the number of appeals to the Court is increasing, your budget would reduce staffing in the Office of General Counsel by 26 FTE. Can you explain this in light of the ongoing problems your General Counsel has had meeting VA's legal mandate to represent your interests before the Court?

Answer. The Office of General Counsel (OGC) is acutely aware of the impact the increasing caseload has had on the Professional Staff Group VII's (PSG VII) ability to serve the Secretary's interests before the Court. While this group has experienced increasing workloads, other elements within the OGC have also experienced substantial increases in their workload, most notably in the personnel and EEO categories. Every effort has been made to balance the level of legal support among all elements within the Department.

To assist us in making a determination on what is the optimal level of resources to dedicate to the appellate function, OGC has recently awarded a contract to a consultant to study the operations of PSG VII. The consultant's charge is to make recommendations on what procedural changes or resource increases are needed to address the current workload backlogs. Once these recommendations are offered and reviewed, necessary actions will be taken, within the parameters of the President's Budget, for implementing those recommendations and the resource supplementation that may be required. In the meantime, OGC has increased staffing for PSG VII and has authorized limited amounts of paid overtime to help address the backlog problems.

NATIONAL CEMETERY CONSTRUCTION PROJECTS

*Question.* It is my understanding that the VA has made a decision to complete national veterans cemetery project in Seattle, Cleveland, Dallas, Chicago, and Albany, while national veterans cemetery projects in Oklahoma, Pittsburgh, Detroit, and Miami will be terminated. Is this correct?

Answer. It is VA policy not to request Federal funds to construct and operate new national cemeteries once the new cemetery projects in Seattle, Cleveland, Dallas, Chicago, and Albany are completed. However, the fiscal year 1998 budget proposes to enhance the State Veterans Cemetery Grants Program so that it can help states obtain full funding to establish a complete and fully equipped cemetery for veterans. The proposal will increase the Federal share of funds to States through the State Veterans Cemetery Grants Program from 50 percent to up to 100 percent of the costs of construction. This proposed legislation will also authorize funding of up to 100 percent of all initial equipment costs. It is anticipated that this proposal will achieve VA's goal of expanding veterans cemetery access.

In the Spring of 1994, the Secretary advised the Michigan, Florida, Oklahoma, and Pennsylvania Congressional delegations, their Governors, and major veterans organizations that "* * * construction of national cemeteries in Detroit, Miami/Fort Lauderdale, Oklahoma City, and Pittsburgh before the year 2000 was not feasible." VA has not requested funding for any further action at any of these sites. Instead, VA will establish an enhanced partnership with the States for new or expanded state veterans cemeteries through the State Veterans Cemetery Grants Program.

The proposed new national cemetery in the State of Oklahoma has been the subject of congressional action as funding has been earmarked several times during the 1990's. In fiscal year 1991, $250,000 was provided for advance planning including an Environmental Impact Statement (EIS). In fiscal year 1995, $250,000 was provided for design purposes. Legislation authorizing the Department of Army to transfer 400 acres at Ft. Sill to VA for a new cemetery was enacted as part of Public Law 104–201. In February 1997, the Secretary signed the Record of Decision which completed the EIS process.

Of the amount appropriated in fiscal year 1991, a total of $118,000 has been obligated for the completion of the EIS process. In April 1997, VA requested that the total unobligated project balance of $382,000 be reprogrammed to the Major Construction working reserve. The Appropriations Committee in the Senate rejected the request. The VA is now proceeding to use the $382,000 for master planning.

*Question.* Has any funding, in fiscal years previous to fiscal year 1998, been identified, earmarked, set-aside or otherwise designated for any aspect of the study, design, construction or any other stage that is deemed necessary to the locating, planning, design and construction of a national cemetery in Oklahoma, Pittsburgh, Detroit, and Miami? If so, how much has been designated for these projects, for what

stage of the cemetery project were they designated, in what fiscal year was that funding identified, and how much has been obligated?

Answer.

Oklahoma.—

—$250,000 appropriated for Advanced Planning/EIS in fiscal year 1991 ($118,000 obligated for EIS).

—$250,000 appropriated for Planning and Design in fiscal year 1995 (no funding obligated).

Pittsburgh.—$250,000 appropriated for Advanced Planning in fiscal year 1991 ($103,000 obligated for EIS).

Detroit.—No funding appropriated ($71,000 provided from VA APF working reserve for EIS).

Miami.—$250,000 appropriated for Advanced Planning in fiscal year 1992 ($92,000 obligated for EIS).

*Question.* Of those funds identified in my previous question, how much of those funds, and for what projects, has the VA requested to be reprogrammed for other projects?

Answer. Of the total $500,000 appropriated for the development of a new national cemetery in Oklahoma, VA requested in April 1997, that the total unobligated project balance of $382,000 be reprogrammed to the Major Construction working reserve. The Appropriations Committee in the Senate rejected the request. The VA is now proceeding to use the $382,000 for master planning.

*Question.* Would the VA be willing to allow those national cemetery projects where funding has been spent and a site identified, to be completed with the understanding that after these projects are complete the VA is to build no more national veterans cemeteries?

Answer. It is VA policy not to request Federal funds to construct and operate for new national cemeteries other than for the five now in progress. Our paramount concern is not the upfront capital investment required to build national cemeteries but the long-term commitment of providing recurring operational dollars to maintain the cemetery in perpetuity. We have also forwarded legislation to expand the State Veterans Cemetery Grants Program to support construction of veterans cemeteries in locations that are currently, or may become underserved. Should Congress appropriate funds for new national cemeteries beyond these five, VA will obviously comply with the law.

---

## QUESTION SUBMITTED BY SENATOR BARBARA MIKULSKI

### BONE DISEASE RESEARCH

*Question.* In the fiscal year 1997 HUD, VA, Independent Agencies Appropriations Report, the Conferees expressed their support for additional research activity focused on men with bone diseases at the Veterans Administration. Further, the Conferees urged the agency to prepare a long term strategy for research in this area. Can you comment on the status of this request and the research activities the agency has initiated with respect to these diseases?

Answer. Osteoporosis and related bone disease remain areas of special emphasis for funding. In particular, osteoporosis and related bone disease fits into two of our current Designated Research Areas (DRA's)—Aging and Geriatrics; and Chronic Diseases. Our DRA's are in response to the October 1996 recommendations made by the Research Realignment Advisory Committee. Post traumatic osteoporosis due to injury is an area for expanded collaboration with the Department of Defense. Projects in degenerative bone disease are taking place at the Rehabilitation Research and Development Center, located within the VA Palo Alto Health Care System. This center focuses on degenerative bone disease and joint reconstruction, often partnering with the National Aeronautics and Space Administration. In fiscal year 1996, VA investigators collaborated with the National Institutes of Health on seven projects in the area of degenerative bone disease. In fiscal year 1996, VA investigators collaborated with the National Institutes of Health on seven projects in the area of degenerative bone disease. In fiscal year 1997, VA investigators are participating in over 100 projects in the areas associated with Osteoporosis.

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

VETERANS EQUITABLE RESOURCE ALLOCATION SYSTEM

*Question.* I wanted to ask you about the Veterans Equitable Resource Allocation system—VERA. I must say the name sounds good. But, we must be assured that it is truly equitable.

The GAO has examined the system and had some very real concerns. Their statement says in part on page 13: "Although VERA adjusts for differences in regional case mix with its basic and special care patient categories and adjusts the allocations for differences in regional labor costs, it assumes that all of the remaining differences are based on differences in efficiencies. While inefficiency is a major factor in these cost differences, other factors may play a role. For example, to the extent that veterans are sicker and need more health care services in different parts of the country, additional case mix adjustments may be necessary to fully explain regional cost differences. As we have said in the past, VA needs to provide more information on why costs vary throughout the country. VA officials told us they plan to examine this further."

What are the specific plans for the further examination of these factors and what is the expected timing of those analyses? Can you provide the Committee with a complete listing of the factors being looked at?

Answer. As explained in the initial VERA Briefing Book, a variety of factors such as age of veterans, energy, labor and pharmaceutical costs were evaluated in the planning stages of VERA to determine if additional adjustments to the national price were warranted. It was found that there was little variation in the average and median age of patients among networks; energy as a percent of total costs varied little among networks, and in fact constituted a very small portion (1–2 percent) of the network budgets and; over 90 percent of pharmaceuticals are purchased through the federal supply system—resulting in equal network pricing. However, we will continue to evaluate the labor adjustment index and will monitor the implementation of VERA for potential associations between resource allocation and quality of care and workload. We welcome any specific thoughts the Committee may have on what other factors should be examined to potentially improve VERA.

*Question.* I am told that you only look at the age levels of the population in the "special" classification. For that classification, to what extent is the weight of the more elderly veteran population considered—those over 80 and over 85 years of age? Can you provide the Committee with exact methods involved?

Answer. Due to the significant healthcare needs of the "oldest old" population, the vast majority of such patients are reflected in the projection of workload for the special care group. Under VERA, the most resource intensive patients that we treat, including the high-cost elderly, are funded at a special rate of $35,707. Thus, networks with proportionately more of the "oldest old" veterans using VA health care will receive relatively more funding through the special care rate.

*Question.* For the basic classification, costing an average of $2,596, there is no adjustment at all for the variation of more elderly populations. Can you provide the committee with a detailed set of reasons for that decision?

Answer. In the VERA model, patient needs determine resources regardless of age. The three year user basic care population includes a wide range of patient healthcare needs, outcomes, and ages. Age was not used as an adjustment because there was little variation between the average and median age of patients among networks and it is not always the cause of health care needs or costs.

*Question.* Frankly, I fear that some of the underlying assumptions in VERA could be in serious error and that could provide considerable misallocations of resources in the veterans health care system. To what extent does the Veterans Administration desire to implement VERA in fiscal 1998?

Answer. To best answer this question we would need to know which assumptions you believe could be in serious error. With regards to fiscal year 1998, VA plans to implement VERA under the same parameters as fiscal year 1997. However, VERA is a dynamic process that may be refined as it is implemented. For example, there are workgroups that are continuing to look at each component of the VERA model (workload volume, special programs, care across networks, geographic prices, education support, research support, equipment and non-recurring maintenance, and data validation). At present, there are a few changes under consideration that amount to "fine-tuning" the components for research support, education support, equipment, and non-recurring maintenance.

REIMBURSEMENT FROM PRIVATE HEALTH PLANS AND MEDICARE

*Question.* I understand that the VA budget assumes that some of the budgetary shortfalls will be made up by collecting money from the private health care plans of veterans and Medicare. Depending on the details, I support this idea. However, I have my doubts that the VA will be able to collect funds at the level projected. It is my further understanding that VA requires a statutory change in order to collect these funds for VA use.

If Congress does not approve the needed statutory authority, how will VA make up the shortfall in funding? What will this shortfall mean for current programs?

Answer. VA would have to reduce workload below 1997 levels if Congress does not approve this alternative source for collections. VA might not be able to treat as many as 105,000 veterans in 1998, with an even more severe impact in the outyears. The following chart reflects the VA model for the budget year and provides an approximation of impact of various key indicators. These estimates were generated by simply using national averages of past resources and workload. They do not reflect the actual outcomes and efficiencies that would result through Network planning and implementation.

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Shortfall ($000) ..... | ($648,985) | ($1,319,015) | ($2,027,789) | ($2,696,992) | ($3,475,791) |
| Unique individuals .... | (105,423) | (214,265) | (329,400) | (438,108) | (564,618) |
| Inpatients treated ..... | (35,421) | (69,220) | (102,325) | (130,858) | (162,159) |
| Outpatient visits ..... | (1,179,000) | (2,304,000) | (3,406,000) | (4,356,000) | (5,398,000) |
| FTE ..... | (6,643) | (12,983) | (19,192) | (24,546) | (30,417) |

GULF WAR ILLNESSES—DELAY IN PRESUMPTIVE PERIOD RULE CHANGE

*Question.* The Congress and the Department of Veterans Affairs is well aware of the strange health problems facing many of our military personnel who served in the Gulf War. I know the VA continues to work toward a better understanding of the causes of Gulf War illnesses. I also understand that the VA is bearing most of the burden for treating those suffering from these illnesses.

As you know, many Gulf War veterans were denied access to treatment due to a very limited time period in which they could have applied for help. Unless a veteran suffering from Gulf War illnesses had applied for treatment within two years of the conflict, they were automatically denied. In March, the Administration decided to extend the presumptive period for veterans suffering from Gulf War illnesses to ten years. I applaud this action. As you may know, I was a supporter of legislation introduced earlier this year that pressed for the ten year extension of the presumptive period.

Unfortunately, the policy change has not yet been implemented. Apparently, the VA has yet to promulgate the presumptive period extension rule change to its network of medical facilities and regional centers. This delay has caused some confusion in the VA regional offices and in the veteran community.

When will the rule be promulgated?

Answer. As to the new rule, an interim rule with request for comments was published in the Federal Register on April 29, 1997. (See 62 FR 23138–9). The rule was effective November 2, 1994, the effective date of "The Persian Gulf War Veterans' Benefits Act," Title I of Public Law 103–446.

*Question.* Have you notified your medical staff and regional centers of the pending rule change?

Answer. We would like to point out first of all that the presumptive period applies only to monetary benefits. VBA notified its regional offices of the revised rule on May 1, 1997, and began processing claims under the revised regulation the same day. Hospitals are aware that Persian Gulf veterans have special eligibility for comprehensive medical care with medical problems thought to be possibly related to hazardous exposure during the Persian Gulf War.

*Question.* How do you plan on reaching out to the veterans community when the rule is finalized?

Answer. VA has issued a press release announcing the revised requirements which has generated a number of newspaper articles. The next issue of the VA's Persian Gulf Review will also publicize the revised requirements and veterans may receive information on this issue by calling VA's toll-free number 1–800–PGW–VETS. VBA will also review all claims previously denied because the symptoms of undiagnosed illnesses did not manifest within the previous two year presumptive

period to determine whether the veterans who filed those claims qualify for compensation under the revised criteria.

GULF WAR ILLNESSES—RESEARCH FUNDING

*Question*. I note that your fiscal year 1998 budget includes a decrease in funding for VA medical research. What will the decrease in VA medical research mean for your investigations of Gulf War illnesses?

Answer. No reduction in support for study of Gulf War illnesses is contemplated.

NEW RULES FOR DISCRETIONARY VETERANS

On October 1, 1996, new rules went into effect at the Veteran's Administration (VA) with regard to who "may" and "shall" have needed care furnished to them in a VA facility. These new rules have had the effect of ending VA care to a number of veterans who are "discretionary" or Category "C". I understand the budgetary reasons for such changes to the rules governing veterans care. As I am sure you know, these rule changes have caused problems for a lot of category C veterans who can no longer receive medical care in a VA facility.

However, I have received reports from Iowans about the difficulties and administrative problems with even determining who is eligible to receive care at a VA facility. For instance, one of my constituents contacted me when the VA denied him further treatment for several conditions for which he was receiving ongoing treatment. In the end, we were able to get him his continuing treatment, but it took intervention by my office and his doctor at the VA.

We have heard of these types of problems before. Even the best of staffs can make mistakes. However, it appears to me that these mistakes are being made because of inconsistencies in the application of the VA eligibility requirements due to a lack of understanding by the staff and veterans.

For instances, in order to help my staff better help constituents who have been denied care at the VA, the VA distributed a "VA Medical Care Fact Sheet" (See the attached VA Healthcare Fact Sheet.) However, this fact sheet is very confusing to veterans. It was also indecipherable to my caseworkers and veterans policy staff.

VA MEDICAL CARE FACT SHEET

Public Law 104–262 dated October 9, 1996, made significant changes in veterans' eligibility for VA medical care. A major feature of this new law makes eligibility rules the same for both inpatient and outpatient care. Public Law 104–262 eliminated many of the complicated eligibility rules governing outpatient care that previously existed. Eligibility rules for nursing home care remain unchanged.

Public Law 104–262 establishes two eligibility categories: The first category includes veterans to whom VA "shall" furnish needed hospital and outpatient care, and "may" furnish nursing home care, but only to the extent and in the amount that Congress appropriates funds to provide such care. This group is composed of those veterans who were previously referred to as "Category A" veterans, but excludes 0 percent noncompensable service-connected (SC) veterans needing care for a nonservice-connected (NSC) disability. This group includes veterans:

*Under the authority of Title 38 USC Section 1710(a)(1)*

—for a service-connected disability
—who have a service-connected disability rated at 50 percent or more,

*Under the authority of Title 38 USC Section 1710(a)(2)*

—who have a compensable service-connected disability;
—whose discharge or release from active military service was for a compensable disability that was incurred or aggravated in the line of duty;
—who are former prisoners of war;
—who are veterans of World War I;
—who were exposed to Agent Orange in Vietnam, ionizing radiation, or environmental hazards in the Persian Gulf (care for this group is limited to certain disabilities);
—who have annual income and net worth below a specified threshold (based on results of "Means Testing");
—who are 0 percent Service Connected and require treatment for their service-connected disability.

The second category includes veterans to whom VA "may" furnish needed hospital care, outpatient care, or nursing home care, but only to the extent resources and facilities are available, and only if the veteran agrees to pay VA a copayment for that care. This group includes all those not listed above and are primarily nonserv-

ice-connected veterans with incomes and net worth above the established threshold based on the results of "Means Testing." These veterans must agree to pay VA a copayment to receive their care. This group also includes 0 percent noncompensable service-connected veterans needing care for any nonservice-connected disability if they are not otherwise eligible for cost-free care. This group is provided treatment under the authority of Title 38 USC Section 1710(a)(3).

ELIGIBILITY ASSESSMENT PROCEDURES

Public Law 99–272, The Veterans Health Care Amendment of 1986, and Public Law 101–508, The Omnibus Budget Reconciliation Act of 1990, established eligibility assessment procedures, based on income levels, for determining whether or not certain veterans who have no other special eligibility, are eligible for cost-fee medical care. These income levels will be adjusted on January 1 of each year by the percentage that VA pension benefits are increased.

Veterans who are not subject to the eligibility assessment (Means Test) are as follows:

—Service-connected (compensable) veterans.
—Former prisoners of war.
—Veterans who were exposed to herbicides while serving in Vietnam, to ionizing radiation during atmospheric testing and in the occupation of Hiroshima and Nagasaki, or exposed to an environmental hazard while serving in the Persian Gulf Theater and need treatment for a condition that might be related to such exposures.
—Veterans receiving a VA pension.
—Veterans of World War I.
—Veterans eligible for Medicaid.

The eligibility assessment, which follows, applies to all other veterans without special eligibility, regardless of age:

Your hospital care, medical services and nursing home care (when provided) are cost-free if:

—You are not subject to the eligibility assessment (as listed above): or,
—You are a nonservice-connected veteran or 0 percent non compensable service-connected veteran seeking care for a non service-connected disability and your combined household income is $21,610 or less and your income plus net worth is less than $50,000, if single with no dependents: or your combined household income is $25,935 or less and your income plus net worth is less than $50,000 if married, or single with one dependent (add $1,445 to the income level for each additional dependent.)

Your hospital care, medical service and nursing home care (when provided) will require your agreement to pay VA a deductible (also referred to as Co-payment) amount for that care equal to what you would have to pay under Medicare, as adjusted annually, if:

—Your combined household income is $21,611 or above if single with no dependents.
—Or, $25,936 or above if married or single with one dependent, plus $1,445 for each additional dependent.

If you are required to pay a deductible for your medical care, you will be charged a co-payment, for which you will be personally responsible, as follows:

—A co-payment equal to the Medicare deductible, currently $760, for the first 90 days of hospital care during any 365-day period. (In addition to this co-payment, you will be charged a fee of $10 per day for inpatient hospital care.)
—For each additional 90 days of hospital care, you will pay half the Medicare deductible plus the additional charge of $10 per day.
—For each 90 days of nursing home care, you will pay the full Medicare deductible. (In addition to this co-payment, you will be charged a fee of $5 per day for nursing home care.)
—A co-payment of $38.80 will be charged for each outpatient visit.

NOTE. The Medicare and outpatient co-payment are adjusted annually.

HOW INCOME IS ASSESSED

Your total income and net worth under the eligibility assessment, include social security; U.S. Civil Service retirement; U.S. Railroad retirement; military retirement; unemployment insurance; any other retirement; total wages from all employers; interest and dividends; workers' compensation; black lung benefits; and any other gross income for the calendar year prior to your application for care.

The income of your spouse and dependents as well as the market value of your stocks, bonds, notes, individual retirement accounts, bank deposits, savings accounts, cash, etc. are also used.

Your debts are subtracted from your assets to determine your net worth. However, your primary residence and personal property are excluded from this assessment.

You will not be required to provide proof of income or net worth beyond filling out VA Form 10–10f, Financial Worksheet, at the time you apply for care; however, VA has the authority to compare information you provide with information from the Department of Health and Human Services and the Internal Revenue Service.

NOTE. The Department of Veterans Affairs is authorized to bill insurance carriers for the cost of Medical Care furnished to all veterans for nonservice-connected conditions covered by health insurance policies. Veterans are not responsible and will not be charged for any co-payment or co-insurance required by their health insurance policies.

NOTE. The Omnibus Budget Reconciliation Act of 1990 provides that veterans receiving medications on an outpatient basis from VA facilities, for the treatment of a nonservice-connected disability or condition, are required to make a co-payment of $2.00 for each 30-day or less supply for medication provided. Veterans receiving medications for treatment of a service-connected condition, veterans rated 50 percent or more service-connected, and veterans receiving VA pension or whose income is at or below the maximum VA pension rate are exempt from the co-payment requirement for medications.

*Question*. What are the VA's plans to help clarify this confusing situation? Do you have any plans to establish a clear set of guidelines as to which veterans can receive care? Could you examine your current materials intended for public use and design more clear fact sheets and other documents?

Answer. It has been recognized that the current material available to the general public regarding VA health care benefits is inadequate. With passage of Public Law 104–262, it is imperative that our clientele clearly comprehend what their eligibilities for VA health care are and that they can make informed decisions regarding seeking their medical care from the VA. In order to develop sensible solutions to these concerns, a focus group has been formed and charged with developing pamphlets, fact sheets and other materials for dissemination, which will assure that clear and understandable information is available to our veterans and their various representatives. It is hoped that these newly developed informational materials will be available by early July.

CORRECT TRIAGE BY MEDICAL PERSONNEL

*Question*. Another issue that has been brought to my attention by Iowa's veterans is the issue of proper triage at VA medical facilities. Under the current system, a veteran who is category C or discretionary, can, under certain circumstances, get medical attention from a VA facility. For example, the VA can see discretionary vets for life threatening medical problems or if adequate resources are available. Unfortunately, my staff has found that the VA staff making the determination may not always be a medically trained individual.

For instance, a veteran complaining of a headache, might be having a stroke or have suffered a concussion, but the receptionist might not feel it is a legitimate emergency and deny them an appointment. I do not believe that any vet with a medical problem should be turned away for administrative reasons. They should at least have the right to proper triage, where personnel with medical training can determined if an emergency exists.

Do you think such a triage based admission system would be possible? Do you believe such a system would be safer and better for the health of our veterans?

Answer. When a veteran, who has never been seen before, comes to a VA facility for treatment, there are two triage process that he/she must go through: The first is an administrative process to determine eligibility for care and the second is to identify the need for treatment. However, if the patient is in obvious acute distress, i.e., life threatening, (not breathing, hemorrhaging, convulsive), then there is no question that the patient would be clinically assessed and provided emergency care. This would occur before any assessment is made to determine eligibility. This practice is in concert with the private sector.

Providing medical triage to every individual who presents at the admission desk would certainly be ideal. However, the resources required would be significant and would not be good use of our scarce staff and funds.

KNOXVILLE FACILITY

*Question*. There is a building at the Knoxville, Iowa Veterans Hospital (Building 74) that is currently vacant. Marion County would like to lease this facility as a minimum security county jail. This would address the number one concern of the Marion County Board of Supervisors which is adequate prison space. Would your office allow this to occur?

Answer. To allow the establishment of a correctional facility primarily for the incarceration of convicted individuals in space that is under the control of the Department of Veterans Affairs is contrary to the mission and vision of this agency as a health care provider.

*Question*. Would it also be possible for your office to look into setting very strict guidelines to only allow minimum security jails, such as the one in Marion County, to lease vacant VA property? This would have a very positive impact on the Marion County community faced with the task of finding adequate space for their jail.

Answer. Since the issuance of IL 90–96–1, dated November 13, 1996, titled "Interim Acquisition Guidance for Health Care Resources Sharing Authority" and VHA Directive 97–015, dated March 12, 1997, titled "Enhanced Health Care Resources Sharing Authority," the VA has further interpreted the intent of the policy to disallow the use of space for correctional purposes regardless of the crime or court order. This activity, as well as using space for abortion clinics, any type of gambling, partisan political activities, or the selling of inpatient services, is contrary to the mission and vision of this agency as a health care provider.

SUBCOMMITTEE RECESS

Senator BOND. We thank you very much, and this hearing is recessed.

[Whereupon, at 3:50 p.m., Thursday, May 1, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

# DEPARTMENTS OF VETERANS AFFAIRS AND HOUSING AND URBAN DEVELOPMENT AND INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1998

---

**TUESDAY, MAY 6, 1997**

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, DC.*

The subcommittee met at 9:30 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Christopher S. Bond (chairman) presiding.

Present: Senators Bond, Burns, Mikulski, Harkin, and Boxer.

## NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

**STATEMENT OF DANIEL S. GOLDIN, ADMINISTRATOR**

**ACCOMPANIED BY:**

**MALCOLM L. PETERSON, COMPTROLLER**
**MICHAEL D. CHRISTENSEN, ASSOCIATE ADMINISTRATOR FOR HEADQUARTERS OPERATIONS**
**SPENCE M. ARMSTRONG, ASSOCIATE ADMINISTRATOR FOR HUMAN RESOURCES AND EDUCATION**
**JOHN D. SCHUMACHER, ASSOCIATE ADMINISTRATOR FOR EXTERNAL RELATIONS**
**JEFF LAWRENCE, ASSOCIATE ADMINISTRATOR FOR LEGISLATIVE AFFAIRS**
**WILBUR C. TRAFTON, ASSOCIATE ADMINISTRATOR FOR SPACE FLIGHT**
**ROBERT E. WHITEHEAD, ASSOCIATE ADMINISTRATOR FOR AERONAUTICS AND SPACE TRANSPORTATION TECHNOLOGY**
**WESLEY T. HUNTRESS, ASSOCIATE ADMINISTRATOR FOR SPACE SCIENCE**
**ARNAULD E. NICOGOSSIAN, ACTING ASSOCIATE ADMINISTRATOR FOR LIFE AND MICROGRAVITY SCIENCES AND APPLICATIONS**
**ROBERT L. GROSS, INSPECTOR GENERAL**
**WILLIAM F. TOWNSEND, ACTING ASSOCIATE ADMINISTRATOR FOR MISSION TO PLANET EARTH**

### OPENING STATEMENT OF CHRISTOPHER S. BOND

Senator BOND. Good morning. The committee will come to order.

The subcommittee meets today to review the budget request of the National Aeronautics and Space Administration, and we welcome Daniel Goldin, NASA's Administrator, and his staff.

NASA's budget request totaled $13.5 billion, $200 million less than fiscal year 1997's enacted level. Not only is NASA the only

major agency in the VA-HUD-Independent Agency Subcommittee jurisdiction that has requested a reduction from the fiscal year 1997 level, but NASA is also to be a contributor to the recisions put forth in the 1997 emergency supplemental appropriations bill. You cannot be much better of a team player than that. We appreciate NASA's willingness to step up to the plate and actually do more with less, instead of just talking about doing more with less sometime in the future.

Compared to last year at this time, NASA's future looks a lot better. The out-year numbers contained in the President's request appear to be at levels the agency and Congress can live with. And NASA has presented us with awe-inspiring visions, allowing us to picture the far reaches of the universe, to see the birth of stars and galaxies, and to imagine the possibility of life existing throughout the universe.

On the other hand, last year has also raised new concerns, particularly over the construction of the international space station. We appear to have run into problems, both with United States contractors and with the commitments from our Russian partners. Obviously, this will be an area we want to explore during the hearing.

But we also have been surprised that the shuttle program, which had allegedly cut to the bone, was able to come up with an excess of $200 million in fiscal year 1997 to be used as part of the shortfall in the space station program. I am very concerned that it appears that NASA has built up an internal bank of uncosted carryovers to allow the agency to bail out other programs, despite the purposes for which Congress appropriated the funds. The committee needs to understand NASA's use of uncosted carryovers, both for NASA's credibility and for us to understand the actual funding costs of these programs.

To make matters worse, this is another difficult year for the subcommittee. We have human scale problems ranging from medical care for veterans to housing for low-income Americans to relief for victims of disasters. We are not far enough along in the budget process yet to have an allocation for this subcommittee, and we have noted with great relief that all sides and all parties finally appear to recognize that the costs of assisted housing, particularly section 8 housing, require additional funding, particular budget authority, and if there is agreement and recognition of that, our lives, and consequently your lives, will be somewhat easier.

But nevertheless, it is still somewhat premature to discuss the levels of funding that may be available to NASA. The one thing we know for sure, regardless of the budget agreement, is that budgets will be tight, and, therefore, we will be asking questions to get a better understanding of NASA's funding priorities for its programs.

We are living in a rapidly changing world. If you achieve the goals you recently laid out in your aeronautics and space transportation technology enterprise, Mr. Goldin, the pace may become even more rapid, with no excuses for a plane not landing due to fog and flights to Alaska so fast that our chairman will be spending every weekend in the State. But in any event, we look forward to exploring that future with us.

Let me now call on my distinguished ranking member, Senator Mikulski, for her opening statement.

STATEMENT OF BARBARA A. MIKULSKI

Senator MIKULSKI. Thank you very much, Mr. Chairman, and good morning, Dr. Goldin. I am really looking forward to this hearing this morning, and would like to say that first of all I am very pleased that the budget request by the President is $13.5 billion. We view that as the minimum acceptable level to maintain NASA in terms of it being able to fulfill its mission.

I want to thank Chairman Bond, as well as you, OMB Director Frank Raines, Leon Panetta, and the Vice President, for really dealing with the outyear question that was raised at last year's rather intense hearing. As you recall, I kind of gulped when I saw that in a few years the budget dipped to 11.6, and I was afraid that for fiscal reasons NASA would be hollowed out. Now I believe that we have a stable budget request for over 5 years. It is not exactly what we would all hope, but at least the certainty and reliability of that I think will help NASA be able to plan, and so we are very relieved about that.

What that calls for, because it will be the minimum acceptable level, is really wise use of our Federal dollars. And I know your mantra has been quicker, faster, better, cheaper. But let me lay out a couple of the yellow flashing lights that I hope we will see addressed in your testimony

One, I am concerned about the space station and its ability to eventually come to fruition because of the shaky nature of the Russian participation. I in no way question the technical competency of our Russian counterparts, but their financial situation. The same types of concerns that were raised by our colleague in the House, Mr. Sensenbrenner, parallel mine. So we look forward to hearing your commentary.

I was a bit concerned to hear about $200 million from the space shuttle could be going in to develop alternatives should the Russians fail to complete their commitment. I am concerned because I do not know what that means to the shuttle, and I believe that the No. 1 priority of the chairman and myself will always be the shuttle and its safety. Without the shuttle and safety on the shuttle, we really do not have the kind of NASA that I believe we need for the 21st century. So we will be looking at shuttle safety.

Second, we note in the budget that mission to planet Earth enjoys funding, and we appreciate that, but one of the other areas I will be interested in is the EOS DIS, the Earth Observatory DIS part, which ultimately we could gather the greatest information in the world about the Earth. But if all we are is a catcher's mit that just then throws something to a space dugout where it just becomes a data mortuary, then what the hell are we doing it for, you see? So we are not out there for intellectual curiosity. We are out there for intellectual curiosity that could be moved into a greater availability for information. So we will be interested to hear how EOS DIS is on target. We understand one of the contractors has suffered significant problems.

And last but not at all least, of course, we are very much interested in space science, and we will be interested to hear what your vision is for space science, and particularly the origins project which I think ties in ultimately with all that we are doing.

So those are really kind of my concerns that I hope to hear more about this morning, and I look forward to hearing your testimony and once again working with you, and I want to thank you for really the collegial and cooperative way I think we have been working.

Thank you, Mr. Chairman.

Senator BOND. Thank you very much, Senator Mikulski.

Senator Campbell will not be able to attend today's hearing, but requests that his statement be made part of the record.

[The statement follows:]

PREPARED STATEMENT OF SENATOR BEN NIGHTHORSE CAMPBELL

Thank you, Mr. Chairman, for holding this important hearing on the National Aeronautics and Space Administration's fiscal year 1998 budget request.

I would like to welcome Dr. Dan Goldin, the NASA Administrator, to today's hearing and thank him for appearing before us today to this important part of America's research into the future. I know most of us are quite familiar with many of the "spin offs" of space technology and research into our every day lives. Also, with NASA's Mission to Planet Earth program, we anticipate the possibility of immense benefits to our Nation in new knowledge and tools for improved weather forecasting, natural resource monitoring, agriculture, urban and other land-use planning, as well as other economic and environmental benefits.

My home state of Colorado has been and continues to be a major player in the space industry. We have several small businesses that have a great interest in the commercialization of space. Of course, there are some larger contractors, employing hundreds of people who have an interest in what is happening to NASA. I also understand that almost every college and university within Colorado has some degree of participation on the part of not only their faculties, but their students as well and, in fact, this participation even extends into many of the high schools of our state. These are accomplished through the Colorado Space Grant Consortium which is partially funded through NASA. It is estimated that for every NASA dollar invested, $3 of cash and in-kind contributions are added to the program.

We are all aware of the need to balance our federal budget and NASA has been prepared to come to the table and play a part in that effort. At the same time, we do hope that we can continue to support this important aspect of our Nation's research.

I understand that there are problems with the level of international cooperation as well as some problems with the abilities of some of our own U.S. contractors to meet their time and financial agreements. I am looking forward to today's testimony by Dr. Goldin to learn how he intends for NASA to address some of these concerns and continue with our world-leading efforts in space research.

Mr. Chairman, I will close my remarks for now to leave plenty of time for today's testimony. Thank you.

STATEMENT OF DANIEL S. GOLDIN

Senator BOND. Mr. Goldin.

Mr. GOLDIN. Mr. Chairman, I would like, if it is OK with you, to submit my written testimony for the record, and just summarize in a brief statement which I have prepared.

Senator BOND. We would be happy to do so. Without objection, your full statement will be made part of the record. We do appreciate your willingness to summarize, and we will keep the record open for further questions from our colleagues who are not able to be here today.

Mr. GOLDIN. Mr. Chairman, I am pleased to take this opportunity to appear before you today. I want to start by thanking you, Mr. Chairman, and the ranking minority member and the subcommittee for the level of support and guidance that have been critical to NASA.

NASA has undertaken some Herculean tasks. We are restructuring and downsizing, which has saved taxpayers more than $40 bil-

lion. We are moving away from operations back to cutting edge R&D. We are driving bold science and technology initiatives. We are working with our international partners to build the space station. Your input and support have been enormously valuable to NASA as we transition to a new era in Government and a new era in space and aeronautics.

I would like to thank the subcommittee leadership specifically for your support on a number of key issues: First is virtually full funding of the fiscal year 1997 budget request. This was a very important step toward stability for NASA. You also gave us the flexibility we needed to do what made most sense programmatically. We are putting more resources into science and technology and aeronautics, as you encouraged us to do. You have a strong, balanced program today.

Second, gaining transfer authority to meet space station funding needs was crucial. We are able to focus more fully on station development during a critical peak period in hardware production and integration. There was a real need here, and this subcommittee responded.

Third, the multiyear buyout authority has helped us downsize in the least destructive manner possible. This made a tremendous difference to the morale and dignity of our employees. We expect to continue to use this authority in a targeted way to meet our goal of just under 18,000 employees by fiscal year 2000.

Fourth, your support for stable out-year funding has been critically important. It has allowed us to maintain a balanced program and our core mission objectives. The President's fiscal year 1998 budget request reflects this stability, as well. It fully supports the space station and the shuttle. Shuttle safety will continue to be our No. 1 priority.

We are also excited about the Origins Program, new technology-driven mission to planet Earth initiatives, and the aeronautic safety program. While the NASA out-year budget is a reduction in real terms, we are confident we can deliver a robust space and aeronautics program for America.

Chairman Bond and Senator Mikulski, you have been rigorous in scrutinizing the NASA budget and programs. We appreciate your concern and vigilance. You have held us to very high standards over the years. You have been right to do that. The result is a NASA that is stronger, more efficient, and more relevant to the American people.

Thank you.

[The statement follows:]

PREPARED STATEMENT OF DANIEL S. GOLDIN

Mr. Chairman and Members of the Subcommittee: Last May, I told this Subcommittee about the amazing year NASA had completed. I reported that NASA had requested that the Administration provide the Agency a stable budget submission for fiscal year 1997 and that the Administration had done that. NASA's fiscal year 1997 budget request of $13.8 billion was the same as our budget in fiscal year 1996. We had just completed 1995—a year of upheaval for NASA. We had made a commitment to the President to identify another $4 billion of savings in fiscal year 1997–2000 and we delivered, bringing to $40 billion the savings in NASA's multiyear budget NASA has identified for the American taxpayer. The 1995 Zero Base Review had consumed the energy and attention of the NASA workforce. But the Zero Base Review was only partly about finding budget savings. At its heart was a fundamen-

tal challenge to the NASA workforce to prepare the Agency for the next millennium. To sharpen NASA's focus on cutting edge technology. To commit NASA's Centers to becoming Centers of Excellence. To do more with less by cutting out duplication and overlaps, and ensuring that NASA's energies are directed at those things only NASA does best. Let the private sector take over those activities that they are best equipped to do, and get NASA out of the way. The Zero Base Review was the sprint. Following that extraordinary exercise, we requested that the Administration provide us stability to catch our breath, to continue the serious implementation of new ways of doing business, and to continue to fulfill our promise to the American people—to deliver astonishing science and aeronautics missions which provide history-making discoveries. The President gave us that year.

The Congress, led by this Committee, also gave us that stability in fiscal year 1997. We are indebted to this Committee for its support and its key role in ensuring stable funding for NASA's aeronautics and space efforts over the past several years. With this Committee's help, we have been able to sustain our core activities and maintain a balance among them. The Committee's favorable action on NASA's fiscal year 1997 budget request was a vote of confidence. It provided the stable funding support that we are convinced is fundamental to NASA's delivering on our promises. Last year, I believe we demonstrated convincingly that what NASA does is relevant to the lives of the American people.

Last year, NASA's fiscal year 1997 budget request was stable, but the outyears were lower than we expected. I told you then, we hoped we could do better. I am happy to report that we have. The President's fiscal year 1998 budget request for NASA of $13.5 billion, and the funding plan for the outyears, are proof of the President's commitment to the Nation's space and aeronautics program. This budget plan is a vote of confidence from the President and his Administration that NASA has done what it needed to do, technically, scientifically, and organizationally. We have reached out to our solar system and our Universe seeking answers to fundamental questions:

—How did the Universe form?
—How do galaxies, stars, solar systems and planets form and evolve and how does this knowledge relate to rewriting chemistry, physics, and biology textbooks?
—How did life form and evolve?
—How do we develop knowledge of our own planet so we can predict climate, weather, and natural disasters?
—How do we use the uniqueness of space in Earth orbit and on planetary bodies to understand the fundamentals of chemistry, physics, and biology, and how do we use this knowledge to live and work in space and benefit life on Earth?
—How do we have revolutionary advances in air and space so that travel will be safer, more economical, and more environmentally friendly so we can open the air and space frontier?
—What are the cutting-edge technologies, the processes and design tools that we need to solve the above questions?
—How do we communicate this knowledge to the American public to inspire young people to reach for heights and be proud of their country?

NASA's goal this year is the same as it was last year—to implement a space and aeronautics program that is balanced, relevant, and stable.

NASA has made a remarkable transition in the last few years. We have turned around our budget overruns. In 1992 a General Accounting Office survey identified an average cost growth of 77 percent on our major programs. Today, 5 years later, we are underrunning our program cost estimates by 6 percent.

This turnaround has taken several years. In 1992, technical performance was rewarded while the contractor's practice of "buying in" and NASA's habit of adding program requirements went unaddressed. I told program managers as well as the contractor community when I became Administrator 5 years ago that these practices would be tolerated no longer. The message has obviously been received because NASA program managers are turning in terrific performances. Actually, the pendulum has swung in the opposite direction and resulted in the growth of uncosted balances between fiscal year 1995 and fiscal year 1997. Program managers have become extremely conservative in their obligation and cost plans for the year, biasing their numbers to cover unrealistic procurement award schedules or low probability development threats. This may be an overcorrection, but we are taking advantage of this excellent cost performance across the Agency. In the Shuttle program, we are accelerating the development and delivery of upgrades to hardware and software systems, which will enhance the Shuttle's safety. We have proposed increases for the New Millennium program and TIMED for fiscal year 1997 which took advantage of uncosted balances in excess of program funding requirements. One of the major contributors was the Cassini program, where we have spent far less than we antici-

pated of our program reserves. There is no lack of exciting work to be done if additional funds are available through increased efficiency, without going back to the taxpayers.

We also know that these large balances made us more vulnerable to budget reductions for fiscal year 1997 and fiscal year 1998. We are taking action to correct this problem. We are building our budgets to minimize uncosted obligations at the end of the year. We are increasing management awareness of the need for accuracy in planning by stressing personal accountability and interdependence. We are adjusting how we internally track the actual cost performance of our programs against their monthly plans by eliminating from these plans unsupported estimates about how program reserves will be expended. Finally, we are identifying program priorities midway through the year that we determine are unaffordable, and reallocating funds from programs that aren't using them. Through all of these actions, we are demonstrating that credible, accurate obligation and cost plans are something that management rewards.

In addition to addressing cost overruns, NASA needed to streamline its workforce. In 1993, we had 24,900 civil service employees at NASA. At the end of fiscal year 1996, we had a workforce totaling 21,000. Today, we are under 20,000. By fiscal year 2000 we will have 17,979.

We also have made great strides in cutting the cost of spacecraft. From 1990–1994, the average cost per spacecraft launched was $590 million. For 1995–1999, it will be $190 million. Our goal beyond the year 2000 is $77 million. At the same time we are achieving reductions in average development time per spacecraft. For 1990–1994 it was 8.3 years. For 1995–1999, it will be 4.6 years. For 2000 and beyond, our goal is 3.1 years. Because we are reducing the cost and time for development, we can launch more missions. For fiscal year 1990–1994, NASA averaged 2 flights per year. For 1995–1999 it will be 9 flights per year. For 2000 and beyond, our goal is 16 flights a year. It truly is faster, better, cheaper.

NASA determined several years ago that we must transition from larger to smaller spacecraft. Galileo is an extraordinary program. It is providing us unprecedented information about Jupiter and its moons, changing the way we think about the largest planet in our solar system. But the development of Galileo was expensive. Development of the Galileo spacecraft started in 1981, when the approach to space missions was "a one time shot," in which a mission was designed to achieve a maximum number of scientific objectives because it was deemed to be a single flight opportunity. It is no wonder Galileo's total life cycle cost, from development through mission operations, is $2 billion dollars.

Today, NASA has revolutionized the way we build spacecraft. We have created a group of small planetary missions. Between fiscal year 1996–2001, NASA expects to launch 11 of these small missions which, combined, will cost less than the single Galileo mission. NASA is thrilled with Galileo and the science it is returning, but the days of bigger and bigger spacecraft are over.

NASA remains unwavering in our commitment to improving Shuttle safety. It has been our highest priority. In 1991, the probability of catastrophic loss on ascent for the Shuttle was one in 78. Today it is one in 248. NASA has achieved a 50 percent reduction in the number of in-flight anomalies per flight since fiscal year 1993, from 14.3 to 6.8. The Agency also has reduced the number of monthly mishaps during Shuttle processing at the Kennedy Space Center almost 50 percent, from 0.9 in fiscal year 1993 to 0.5 in fiscal year 1996. At the same time, the Agency has worked diligently to reduce Shuttle operating costs. In fiscal year 1993, it had been $4.1 billion dollars. Today it is $3.1 billion. The number of people required to operate the Shuttle—contractors and civil servants—has been reduced nearly 22 percent since fiscal year 1993. At the same time, we have made the process more efficient. Since fiscal year 1993, the amount of overtime has been reduced 37 percent. This means our teams on the line are not overworked and susceptible to making mistakes, and that we are meeting our budgetary commitments.

Today, NASA is focusing on programs that make the most sense. We are not rushing off to initiate a program every time a new discovery is made. Before NASA commits to a program, it must show real promise for answering important questions about the Universe, planet Earth, or aeronautics. The technology we are developing is cutting edge and is linked directly to accomplishment of our scientific goals. NASA's measurements of success are profoundly different than in the past—by our output, by the science achieved, not by the level of dollars going in. As you can see, by all measures, NASA has achieved great success.

Witness NASA's outputs for 1996. It was an amazing year. The scientific discoveries, the missions, were astounding.

Last August, I had the opportunity to introduce a finding at a NASA press conference which forever changed the way people view themselves and the Universe.

The cause for all of this excitement was a rock, a meteorite from Mars which suggests that primitive life may have formed there more than 3 billion years ago.

NASA's reaction to this announcement is one of careful fascination. The implications are profound, but the inferences are not conclusive. Much more work needs to be done to confirm, or refute, the conclusions of this team of researchers. While the potential for life on early Mars adds emphasis to our current planning for the scientific exploration of Mars, an important first step is to focus more work on the Martian meteorites.

A logical next step is to confirm what we have here on Earth. Other scientific teams must attempt to replicate the findings of the McKay team to ensure the validity of its findings. McKay and other scientists must look to other avenues of inquiry, such as evidence of sub-cellular structures, to augment and expand the areas of analysis. And we need to continue to identify more meteorites from Mars, and to examine the other eleven we already have, for any light they may be able to shed on this area of scientific inquiry.

In this regard, NASA and the National Science Foundation (NSF) are jointly funding the Ancient Mars Meteorite Research Program. NASA and NSF released research announcements for this program last November and we received proposals in late January 1997. We will conduct a coordinated peer review and selection process shortly; we anticipate announcing awards in mid-May. This joint program will allow the broader scientific community to investigate whether the preliminary conclusion reached by the McKay team is valid, to see if other meteorites offer similar opportunities for understanding life, and to open this area of inquiry to new methods and ideas. We expect that in a year or two a clear scientific consensus will have emerged on the intriguing question of whether we have found evidence of life beyond Earth.

As this research continues, we also are launching a number of missions to help address these questions about past life on Mars. Two historic missions to Mars were launched in 1996. The Mars Pathfinder and the Mars Global Surveyor will reach the Red Planet in 1997. Both of these are part of the 11 small planetary missions, the ones with quicker development time and much smaller life cycle costs.

Galileo made a lot of history of its own this year. When Galileo's probe made its way into the violent atmosphere of Jupiter, we learned new information on the extent of its water, clouds, and chemical composition. One of Galileo's most exciting reports last year was that Europa, a moon of Jupiter, may have once had, or perhaps still has "warm ice" or even liquid water beneath its icy crust. On Ganymede, Jupiter's largest moon, Galileo recorded three-dimensional images of giant, icy fissures and evidence of a magnetic field. Galileo's data gathered from the moon Io found it had changed substantially since the volcanically-active moon had been observed 17 years ago by the Voyager spacecraft. The new data we have gathered from Galileo's mission to Jupiter means that astronomy books all over the world will be rewritten.

The Hubble Space Telescope had an impressive year in 1996. It studied the surface of Pluto and the birth of stars. Hubble took a cosmic movie of the Crab Nebula. It found the Nebula even more dynamic than previously understood. Hubble surveyed the "homes" of quasars and found they live in a remarkable variety of galaxies often violently colliding.

These discoveries set the stage for an even more exciting quest to find answers to questions about the Universe and Life which are as old as human thought. The study of Origins follows the 10- to 15-billion-year-long chain of events from the birth of the universe at the Big Bang, through the formation of chemical elements, galaxies, stars and planets, through the mixing of chemicals and energy that cradled life on earth, to the earliest self-replicating organisms and today's profusion of life.

Human Space Flight activities hit the record books in 1996. Astronaut Shannon Lucid set a new American record for continuous space flight during her 181-day stay on the Russian space station Mir. Astronaut Lucid conducted vital microgravity and life sciences research as well as providing a model for international cooperation in space. Our continuing program of joint activities with the Russians is setting a foundation for the International Space Station. The Space Shuttle successfully completed seven missions, including 3 visits to the Mir, two Spacelab missions, deployment of the Tethered Satellite System, and the fourth Spacehab mission. NASA and the United Space Alliance (USA) signed the Space Flight Operations Contract, making USA the single Space Shuttle prime contractor. This was the first step in the consolidation of multiple ground and flight operations contractors into a single contract.

As part of the Mission to Planet Earth, the NASA Scatterometer was launched aboard the Japanese ADEOS satellite in 1996. It is providing new data on wind velocities over the oceans, allowing researchers to study the interaction of the oceans with the atmosphere on a global scale.

In 1996, NASA successfully flight tested a new collision avoidance radar system intended to help helicopter pilots fly more safely when operating close to the ground or in poor weather conditions. This sensor, designed to detect obstacles in an aircraft's flight path and provide a cockpit display to help avoid them, has potential uses for all types of aircraft.

Lockheed Martin was chosen to build the X–33. It is a one-half scale prototype of the Reusable Launch Vehicle. The X–33 will be used to demonstrate advanced technologies that should dramatically increase reliability and lower the costs of putting payloads into space.

We can all agree 1996 will go down in history as a year of record-breaking discoveries. I predict 1997 will also be spectacular. No one knows what discoveries we have in store, but that is the serendipitous nature of exploration.

Next, I would like to address NASA's fiscal year 1998 budget request. If the fiscal year 1993 NASA budget were projected through fiscal year 1998, NASA would have planned for a fiscal year 1998 budget of $20.8 billion. The actual budget request for 1998 from the President is $13.5 billion. That's a world of difference. But we are making it work. I will now discuss the plans of NASA's Enterprises and how the fiscal year 1998 budget request supports NASA's continuing efforts to deliver better programs for less.

HUMAN SPACE FLIGHT

We are now into our fourth year of development since President Clinton asked NASA, in the spring of 1993, to redesign the Space Station. Since then, the International Space Station (ISS) Program has moved steadily and aggressively forward, overcoming many challenges to develop this unprecedented international orbital research facility, the doorway to the future of human space exploration.

We have gained much from our collaboration with Russia in preparation for ISS assembly and operations and from continuous presence of American astronauts onboard Mir. We have flown five successful Space Shuttle/Mir docking missions, and one rendezvous mission. We have just recently completed the first year of continuous U.S. presence in space, through the Phase 1 Program, with U.S. astronauts living and working aboard Mir. We have successfully performed joint U.S. and Russian operations on the ground and in orbit and demonstrated that scientific research will benefit greatly from the ISS. On-orbit experiments such as those to be flown on the International Space Station have already provided new insights that may help support ground-based research in the search for treatments for cancer, AIDS, influenza viruses, and other diseases.

With regard to the Mir, I know that recent press reports have raised some concern about the viability of Mir and the safety and health of the crew. Let me say as strongly as I can that no one is more concerned about the safety and well-being of our astronauts than NASA. And I believe our Russian colleagues share that concern. We have flight surgeons monitoring the Mir missions, just as we do Shuttle missions, and their responsibility is to protect the health and safety of the crew members. Our Phase 1 Program Manager, Frank Culbertson, is conducting his own internal review of the Mir status and the question of maintaining our presence there. In addition, an independent assessment is being conducted by a group led by Tom Stafford. Make no mistake. Mir has been experiencing mechanical problems; it is an aging spacecraft. Those problems are being addressed and repaired as they occur, and the crew has the ability to come home early if necessary. But there is no emergency. We will keep the Congress informed with respect to our activities and findings and assure you that we will not compromise the safety of our astronauts. We have learned much through the Mir program. The problems incurred have actually increased our acceptance of Russian operations philosophy, through confirmation of their decisions through our own review. The exchange of U.S. crew on the Russian Mir station is a main element of the program, which we expect to continue.

While the foundation being provided through Shuttle-Mir cooperation in developing on-orbit assembly and operations capabilities for the ISS remains an unequivocal success, Russia's challenges in providing hardware contributions as an international partner have been a continuing cause for concern. This is addressed later in the testimony.

Our other international partners—Canada, Europe and Japan—have proven their commitment to this international venture for humankind, investing nearly $6 billion to date for design and development of their hardware contributions. The European Space Agency (ESA) has entered into the largest single contract in ESA history for development of the Columbus Orbital Facility (COF). ESA has confirmed its commitment to a three-component ISS contribution: the COF, the COF utilization plan and the Ariane Automated Transfer Vehicle. The Japanese program is solid and on

track with its contributions of the Japanese Experiment Module (JEM), the JEM Exposed Facility, and the JEM Experimental Logistics Module. Canada is also making good progress, with Canadian government approval of funding for the Special Purpose Dexterous Manipulator (SPDM) having been secured. The SPDM will augment the robotics system already being provided by Canada with additional capabilities to carry out on-orbit maintenance and operation of the Space Station. The Canadian decision to fund the SPDM, in spite of constrained budgets, underscores its commitment to this program. Relative to non-partner international involvement, the Italian Space Agency remains on schedule for delivery of the first Mini-Pressurized Logistics Module to the Kennedy Space Center in 1998. There are now a total of 15 countries participating in the International Space Station Program, and interest is expanding. NASA and the Brazilian Space Agency have agreed to conduct feasibility studies to explore mutual interests relative to Station.

The largest international, scientific research facility in history is rapidly becoming a reality. The ISS Program has now passed the 59 percent milestone completion mark, having built over 184,000 pounds of U.S flight hardware. As testing of more design units is completed, we are seeing production runs of hardware and software increase. The final quarter of calendar year 1996 marked the largest increase in the amount of flight hardware built since the Program's inception, over 30,000 pounds. Design and fabrication of flight elements for the first six American flights are almost complete. Qualification testing is well underway across the program and flight hardware is being assembled and checked out. Integrated test and verification planning is progressing well and steps are being taken to provide even more integrated testing at the Kennedy Space Center. The NASA/industry team has worked long hours and demonstrated a true commitment to the American people in delivering the International Space Station. I am proud to say that I have no doubt that, had we chosen to, we would have launched the FGB and first U.S. Node later this year. The delay we have announced is not the result of technical development problems or manufacturing difficulties.

The Space Station Program continues to demonstrate a high level of performance, completing approximately 97 percent of scheduled work at approximately 103 percent of budgeted cost. Given the breadth and complexity of the ISS Program, and taking into account the experiences of other major Government development programs, we are convinced that we have demonstrated strong performance. Change request activity is subsiding, with most major cost drivers definitized. Nevertheless, the performance of the ISS prime contractor has not improved as well as planned, which is negatively impacting the program's total performance. While the differences seen between development targets and the prime contractor's actual level of performance are to be expected in a program of this complexity, the continued cost growth and performance problems have strained near-term reserves. Recovery plans will mitigate our cost and schedule variances, but these variances will continue to require the use of reserves.

ISS program management has been innovative and creative in addressing and resolving many of the challenges, but significant issues remain. We are now in a critical phase where a considerable amount of hardware is being assembled and tested, and software is being developed, integrated and checked out. Peak manufacturing and testing activity is occurring through fiscal year 1997 and fiscal year 1998. During this timeframe, the potential for unforeseen challenges to our cost and schedule targets will remain high. The program had adequate reserves built into the total development estimate to address these anticipated challenges. However, delays in delivery of Russian contributions have required us to develop and maintain contingency capabilities that are diverting these resources.

The Russians are facing tremendous economic challenges and are experiencing serious difficulties in meeting their commitments. Russia has missed a number of development milestones for its contributions to the International Space Station due to funding shortfalls. Delivery of the Service Module (SM) has been delayed from April to December 1998. The funding issue was addressed at the February 1997, meeting between Vice President Gore and Russian Prime Minister Chernomyrdin, and by Presidents Clinton and Yeltsin in March. Russian leaders have committed that adequate funds will be provided in 1997 to keep Russian elements on track.

We continue to believe it is important that Russia remain a partner in the International Space Station; however, we must not be overly dependent on them, or any of our other partners. This is a partnership based on mutual benefits. We receive the benefits of a mature and experienced space program. And it is important to remember that before the Russians joined the partnership, the cost of the space station was $2 billion more and would have started a year later, even with the current change in the first element launch.

We are continuing to closely follow developments in Russia with respect to funding for the Service Module. A NASA team, led by General Thomas Stafford, recently completed a visit to Moscow where its members gained further insight into the Russian funding status. The team received assurances of the Russian government's commitment to participation as planned in the ISS. The team was advised that the first increments of ISS funds would be dispersed to the Russian Space Agency by the end of May.

As the Committee is aware, NASA has been reviewing a number of options to mitigate the impact of the Service Module slip. In order to allow the Agency to work around the current delay of this key Russian module, we are rescheduling the launch of the first element, the Functional Cargo Block, to no later than October 1998. To launch hardware to orbit simply to maintain our baseline schedule exposes the flight hardware to unnecessary risks. This is because FGB on-orbit avionics and fuel reserves would be stretched to support any additional Service Module delays. As designed, the FGB cannot adequately provide control functions for the assembly sequence to continue beyond the arrival of the U.S. Node. Going beyond that point requires the arrival of the Service Module, which will provide critical capabilities for the control and stability of the Station prior to arrival of the U.S. Laboratory Module. The Service Module also provides crew habitation and life support systems for early human occupation of the Station.

Faced with the potential for further delay of the Service Module, we have initiated a contingency plan to ensure that we can continue the ISS assembly process. We are now pursuing two hardware options to address the delay in the Service Module. First, we will modify the FGB to enhance its attitude control capabilities and make it refuelable. Second, we will pursue the development of an existing, proven system built by the U.S. Naval Research Laboratory, as an interim control module, or ICM. The ICM will provide command, attitude control, and reboost functions. The FGB modification and the ICM addition would provide control capability even if the Service Module were delayed even a year longer than planned—up to December 1999.

We are currently evaluating options to address further potential perturbations to the program which could result from Russian schedule delays. These evaluations include assessing the possibility of advancing life support systems from the U.S. Habitation Module to the U.S. Laboratory Module to enable earlier human presence. In addition, we are evaluating options to provide a longer term propulsion capability to guard against further delay or non-delivery of the Russian Service Module. We are continuing the technical evaluations, assessing the schedule implications, and completing the cost estimates necessary to support a decision if necessary on these issues, in consultation with our international partners, the research community, and the Congress.

NASA and its partners have agreed to baseline a revised assembly sequence at a Space Station Control Board meeting in mid-May. Baselining the Service Module launch for December 1998 remains NASA's preferred approach. We have told RSA that the factors we will be looking at in making this decision are: first, whether Russian contractors are receiving promised funding; second, the completion of a Service Module General Designer's Review, and; third, satisfactory progress by Service Module subcontractors to support a December 1998 launch. A significant delay in these events would necessitate the baselining of the ICM for launch in December 1998. NASA intends to preserve the ICM risk mitigation capability in either case.

ISS funding is flowing in Russia through two different mechanisms. Over 100 billion rubles of RSA ISS CY 1997 budget funding has been received and disbursed to RSC-Energia and subcontractors for work on the ISS, particularly the Service Module. Additional funding is flowing through a Ministry of Economics investment allowance of 1.5 trillion rubles, specifically targeted for the ISS. Of this allowance, over 200 billion rubles was made available to RSA on April 30; this amount is expected to increase to 800 billion rubles by mid-May. A schedule of payments on the remainder of this allowance is expected to be finalized by mid-June 1997.

The Service Module General Designer's Review was held on April 24, 1997, with RSA, RSC-Energia, Krunichev and all major subcontractors (over 40 companies). NASA senior managers were also in attendance during this open and candid review which focused on technical issues. Schedule milestones were reviewed in detail and all Russian parties stated that the current Service Module schedule for a December 1998 launch is feasible if the promised funding is forthcoming. They then committed to the schedule execution necessary to hold this launch date. As a result of the General Designer's Review, we now have a signed overall Service Module schedule and detailed delivery schedules for the subcontractors.

Based on the positive and concrete progress we have observed in Russia since February, I am increasingly optimistic that we can baseline the Service Module for a December 1998 launch at the upcoming, mid-May meeting of the Space Station

Control Board (SSCB). However, progress must continue to be demonstrated. NASA has made it clear to RSA that we fully intend to build the ICM as a prudent measure, and that a decision by the international partners to maintain the Service Module launch date of December 1998 will ultimately be based on an increased confidence in Russia's commitment, gained through substantiated actions. We will, of course, confirm that funding continues to flow to Russian contractors for the Service Module before the SSCB, which includes participation of all of the ISS international partners, makes a decision to baseline the Service Module instead of the ICM for launch in December 1998. We will continue to monitor the situation and make appropriate adjustments to our baseline assembly sequence, per our contingency plan, as required based on Russia's ability to continue to meet their commitments.

The costs associated with NASA's contingency efforts to offset the Service Module delay are being minimized wherever feasible, but NASA will certainly require resources outside the planned program to undertake these changes and minimize delays. NASA has submitted to the Committee a revision to the fiscal year 1997 Operating Plan to reallocate $200 million within NASA's budget for step one of this contingency effort. It is important to note, however, that NASA must secure $130 million of the planned $200 million reallocation by May 15 in order to implement this contingency effort; the full $200 million reallocation must be undertaken by the end of May. I want to be clear that, to the extent we use uncosted Shuttle funds for this purpose, it will have no effect on Shuttle safety. The reallocated funding will be the source of funds to address specific U.S. program requirements resulting from delays on the part of Russia in meeting its commitments to the ISS program and uncertainties about future Russian performance. NASA is also seeking continuation of the U.S./Russian Cooperation and Program Assurance budget line in fiscal year 1998, with a placeholder amount of $100 million within the President's total request of $13.5 billion. The exact amount and source of the funding for fiscal year 1998 will be determined after a careful review of any potential additional hardware requirements needed to offset possible further Russian delays on the Service Module and its other programmatic commitments. We will keep the Committee apprised of our deliberations in this regard.

NASA is meeting its commitments to the Congress and the American people in building the ISS. The ISS program continues to identify ways to maximize program efficiencies and leverage investments to enhance the capabilities of the Space Station. Ongoing discussions with the International Partners have resulted in some U.S. hardware development being performed by the International Partners to offset Shuttle launch cost for International Partner hardware. After delivery, the United States will own and utilize this hardware. Examples of this hardware include: Nodes 2 and 3, which ESA has agreed in principle to provide, and the Centrifuge Accommodation Module, Centrifuge Rotor and Glovebox which we are currently negotiating with Japan.

NASA, the Administration and the Congress recognized the risks and challenges involved in undertaking a partnership on the International Space Station with the Russian Federation, but agreed that the risks were outweighed by the tremendous benefits. We have already learned much from the Shuttle/Mir Program. The International Space Station remains a much more capable and robust laboratory facility than it would be without the Russian contributions—we will gain incredible scientific capabilities; we will develop cutting-edge technology. As I have said earlier, the American taxpayer has gained by the Russian involvement, and would stand to lose a great deal if Russia does not continue as part of the program. The Russian funding shortfalls have presented challenges. Now, in conjunction with our international partners, we have developed the necessary plans to move ahead, while still providing the opportunity for the Russians to participate in the program. With the support of this Committee and the Congress, we can enhance program stability and adapt to the realities that have come with Russia's involvement.

The International Space Station is an initiative of significant size and complexity, offering enormous returns. It is a demonstration of America's leadership in the development of peaceful cooperative ventures entering the 21st century. Humankind's thirst to expand its knowledge and desire to explore the unknown are essential elements to our continued growth as a Nation and as a world community. The Space Station is our opportunity to prove America's commitment to lead the way.

The Life and Microgravity Science and Applications (LMSA) program leads the Nation's efforts in space biological, physical and chemical research and aerospace medicine. We support technology development and use the space environment to advance knowledge, to improve the quality of life on Earth, and to strengthen the foundations for the continued exploration and development of space. The LMSA program supports ground-based research and definition studies upon which flight experiments are based. Major initiatives underway include continued cooperation with

the National Institutes of Health and the National Science Foundation. The fiscal year 1998 budget request for the LMSA program is $214.2 million.

The fiscal year 1998 budget request for the Space Shuttle program supports two major activities: Safety and Performance Upgrades ($483.4 million) and Space Shuttle Operations ($2,494.4 million). Safety and Performance Upgrades funding supports the modifications and improvements to the flight elements and ground facilities, including expansion of safety and operating margins, enhancement of Space Shuttle capabilities to meet customer requirements, replacement of obsolete systems, and upgrades required to meet environmental regulations. We are continuing the program of selected upgrades to increase reliability and maintainability of the Shuttle systems, and continuing studies to assess the feasibility of implementing more state-of-the-art technologies into the system. The upgrades allow us to support our customer's requirements through 2012. Upgrade examples include updating the launch processing system, implementing Global Positioning System, Orbiter avionics improvements, and orbital debris modifications.

Shuttle Operations funding supports hardware production, ground processing, launch and landing, mission operations, flight crew operations, training, logistics, and sustaining engineering to maintain and operate the Shuttle fleet of four vehicles. The transition of operations to the Space Flight Operations Contract will continue through fiscal year 1998. The Shuttle manifest includes eight flights in fiscal year 1997 and six flights in fiscal year 1998. Highlights of the fiscal year 1997 flights include: a Wake Shield experiment, which was successfully flown in November 1996; the successful second servicing visit to the Hubble Space Telescope replacing two current science instruments with "second generation" instruments and refurbishing some telescope support system components; three more resupply flights to the Russian Space Station Mir; a development flight test of components that will be part of the Japanese Experiment module on the International Space Station, and; the Microgravity Science Laboratory mission (MSL), which was designed to study protein crystal growth, combustion, and material science experiments. A problem with one of three Shuttle fuel cells forced curtailment of this mission. The fuel cell has been removed from the orbiter, returned to the vendor and is undergoing numerous tests and analyses to discover the root cause of the problem. We plan to refly MSL, and to continue its important scientific research, in July of this year. Six flights are planned for fiscal year 1998, including the last Spacelab (NEUROLAB), deployment of the Advanced X-Ray Astrophysics Facility (AXAF) and two flights to the Mir Space Station. A mission including a Microgravity payload package of experiments in the Orbiter cargo bay and a SPARTAN X-ray astronomy experiment using a retrievable free flyer also is manifested. We will also be ready for the assembly of the International Space Station to begin during this timeframe.

The fiscal year 1998 budget request for Payload and Utilization Operations ($227.4 million) supports the processing and flight of Space Shuttle payloads and payload carriers for space experiments; retention of core science and technology capabilities supporting a variety of programs and the Human Space Flight Centers, and advanced research programs activities. Funding also is included to continue support of the X–38 vehicle, which is an in-house technology demonstration program for a prototype vehicle which has multiple applications and evolutionary options. Primarily, it is a pathfinder for the Crew Return Vehicle (CRV) for the International Space Station.

Discussions are underway with the European Space Agency exploring the commonality of design between the CRV and European Crew Transfer Vehicle and on the ability to launch the CRV on the European's Ariane expendable launch vehicle. The Japanese Space Agency has expressed interest in participating in the X–38 and CRV programs and we are jointly looking at the possibility of their providing launch capability on their H–2 expendable launch vehicle.

An agreement has been reached with DOD to collaborate on the X–38 to validate technologies which may be required for the Air Military Space Plane. Design and test capabilities which the Air Force could contribute to the X–38 have been identified. The Air Force has agreed to perform a 6-degree-of-freedom flight simulation of the X–38, miscellaneous additional design reviews and evaluations, as well as developing an experiment to fly as a payload on the X–38. Additional areas for potential collaboration are being discussed.

## SPACE SCIENCE

The highlight of the fiscal year 1998 budget request of $2,043.8 million for Space Science is the Origins program. The Origins Program was designed to answer questions about the Universe. For the first time in the history of humankind, we have the technology, or we will soon, for answering many of the questions about the be-

ginning of the Universe and our solar system. Origins is going to look at many facets of the Universe, from its creation to the formation of chemical elements, galaxies, stars, and planets. Through this unique program, we will be unraveling the mysteries of the events and their sequence that led from the creation of the Universe to life on Earth.

The fiscal year 1998 budget request for Space Science includes increases for several Origins-related programs. These include:

—an increase for the Mars Surveyor program to allow for the launch of a Mars sample return mission in the middle of the next decade, and to increase the scientific robustness of the program;

—a new Exploration Technologies Development program, to enable bold, new, low-cost experiments on the surface of solar system bodies;

—augmentations to the New Millennium program to enable aggressive development and demonstration of new technologies for the highly demanding new Space Science missions;

—full development of the Keck II ground-based interferometer, to enable direct detection of planets around other stars; and

—an increase in astrochemistry/astrobiology research and analysis, to support the multidisciplinary study of the origin and evolution of pre-biotic material, the origin and distribution of life, the adaptation of life to space, and space studies of life on Earth. The science content of this program will be further defined in the coming year.

The Space Science program is moving forward on a number of scientific and flight programs, building on scientific successes of the recent past and preparing for the launch of significant missions which were started a few years ago and are nearing the end of their development. Cassini will be launched in October 1997. In 2004 it will begin exploring Saturn and surrounding objects, including Saturn's moon Titan. This mission should give us unprecedented knowledge about Saturn and its moons.

On July 4, 1997, America will be returning to Mars when the Mars Pathfinder lands a single vehicle with a microrover and several instruments on the surface. The microrover will be providing ground truth on the surface, while the Pathfinder explores Mars from orbit, using instruments to study geology, surface morphology, geochemistry, the magnetic and mechanical properties of the soil, and a variety of atmospheric investigations. In September 1997, the Mars Global Surveyor will reach Mars and begin its orbits. Approximately every two hours, it will circle the planet, gathering information about Mars that it will relay to Earth. During each orbit the spacecraft will be over a different part of Mars, filling in the blanks in our knowledge about the Red Planet. Together, these missions should give us the most in-depth information we have ever had about Mars.

Galileo will continue its mission of studying Jupiter and its system. A Galileo Europa Flyby occurred on February 20 and another is scheduled for November 1997. During the February flyby, Galileo captured spectacular images of chunky ice rafts and relatively smooth, crater-free patches on Europa which suggest a younger, thinner icy surface than previously believed. We were intrigued by these blocks of ice, similar to those seen on Earth's polar seas during springtime thaws. These features lend credence to the idea of hidden, subsurface ocean, and that some motion caused Europa's crustal plates to break up. Scientists hope to find answers to some of the questions surrounding Europa and its possible oceans as Galileo continues its journey through the Jovian system. Galileo will also have two flybys of Ganymede in April and May.

This budget request includes funding to continue the robust program spacecraft development activities underway in the Discovery, Explorer, New Millennium and Mars Surveyor programs. The program management philosophy underlying these programs, which emphasizes limited science objectives, short development times and strict adherence to cost caps, exemplifies the acceptance of the "faster, better, cheaper" philosophy by NASA and the scientific community. The fiscal year 1998 budget request also provides for continued stability in the Space Science Research and Analysis (R&A), Suborbital Program, and Mission Operations and Data Analysis (MO&DA) accounts.

MISSION TO PLANET EARTH

We are requesting $1,417.3 million in fiscal year 1998 for Mission to Planet Earth, a basic research program seeking an understanding of how the Earth system works and changes, both naturally and in response to human activity. This effort has huge potential to improve the quality of life on Earth, from the basic scientific research and also from strengthening the American economy by developing new science and technologies that are essential to a broad community of civil, commer-

cial and national security users. The comprehensive, long-term focus on understanding and eventually predicting changes in the Earth system is only possible with today's air and space-based observation and information processing technologies. Understanding the interactions of the oceans, atmosphere, continents, ice caps and biomass will be a revolutionary advance in Earth science. While much of our funding is looking toward the long-term goal, a significant portion of this funding is focused on producing near term results. In the near term, we are in the business of improving weather prediction on seasonal to interannual time scales, and increasing the efficiency of producing and using water, food, timber, rangeland, and other natural resources. Our scientists produce research results which reduce the threats that unexpected environmental changes pose to America and other nations of the world. This aspect of the program has become increasingly more important given that the seven largest economic losses from natural catastrophes have occurred in the last seven years. Mission to Planet Earth also conducts basic science and technology research that benefits the American remote sensing industry.

*An Integrated Program Incorporating New Science & Technology*.—The Earth Observing System (EOS), the centerpiece of Mission to Planet Earth, is a program of multiple spacecraft and instruments (AM, PM, CHEM series spacecraft and multiple small missions) designed to provide a sustained 15 year data set on 24 key measurements needed to understand global climate change. The first EOS satellite launches begin in 1998. The EOS implementation strategy has undergone a profound transition in the past few years. The size of the initial satellites to establish the system has been greatly reduced. Future missions will be increasingly responsive to technology advances, evolving scientific understanding, and commercial opportunities. In addition, to ensure the ability to stimulate new scientific discovery and respond to science questions on shorter term time scales, a parallel series of small, rapid-development Earth System Science Pathfinder (ESSP) missions has been incorporated into the program within the available funding. Two ESSP missions were selected last month. The first selection, The Vegetation Canopy Lidar Mission (VCL) seeks to provide the first global inventory of the vertical structure of forests. The second selection, Gravity Recovery and Climate Experiment (GRACE), is a satellite-to-satellite microwave tracking system between two spacecraft to measure the Earth's gravity field and its time variability over at least two years. One alternate was chosen if either of the above missions does not stay within cost guidelines—the Chemistry and Circulation Occultation Spectroscopy Mission (CCOSM), which would attempt to better understand when and where pollutants are released from the surface and mixed into the lower atmosphere, the distribution of Tropospheric ozone, and atmospheric circulation control and seasonal change. VCL will be ready for launch in 2000 and GRACE will follow in 2001.

Data from MTPE missions, both current and future, are captured, processed into useful data products, and broadly distributed by the EOS Data and Information System (EOSDIS). EOSDIS will ensure that data from these diverse missions remains available in active archives for use by current and future scientists. We are currently experiencing some schedule problems in the EOSDIS Core System (ECS), the data processing and active archiving system which comprises approximately one-third of the EOSDIS. We are working aggressively to ensure no adverse impact to the near-term launches while working with Hughes, the implementing contractor, to resolve the issue. In the longer term, following the recommendation of the National Research Council, MTPE is exploring the creation of a federation of Earth Science Information Partners in academia, industry and government to broaden the participation in the creation and distribution of EOSDIS information products.

The intellectual capital for these missions, and the key to generating new knowledge from them, is vested in an active program of research and analysis. MTPE's science research program funds over 1,700 researchers from nearly every state. These researchers develop Earth system models from MTPE data, conduct laboratory experiments, run aircraft campaigns, develop new instruments, and thus expand the frontier of our understanding of our home planet. In 1996, MTPE published its first Science Research Plan which lays out an integrated strategy of satellite, aircraft and surface-based observations and research to address five key questions. The Plan also outlines some twenty related areas of research which round out the MTPE contribution to Earth System Science. The research program is also the basis for generation of applications pilot programs which enable universities, commercial firms, and State and local governments to turn scientific understanding into economically valuable products and services.

*Partnerships Make It Possible*.—The challenges of Earth System Science, sustainable development, and protection of people, property and the environment from natural disasters require collaborative efforts among a broad range of national and international players. NASA participates with 12 other agencies in research coordi-

nated by the U.S. Global Change Research Program. MTPE has extensive collaborations with the National Oceanic and Atmospheric Administration (NOAA) on seasonal-to-interannual climate prediction, and MTPE develops the NOAA-operated operational environmental satellites. NOAA, NASA and the Department of Defense are collaborating on a convergence of the civilian and military weather systems. MTPE collaborates with the U.S. Geological Survey on a range of land surface, solid Earth and hydrology research. NASA, NOAA and USGS collaborate in the Landsat 7 program, and NASA, DOD and USGS are working together on a third flight of the Shuttle Radar Laboratory modified to yield digital terrain data on most of the Earth's surface.

Internationally, MTPE participates in the World Climate Research Program, the International Geosphere/Biosphere Program, and the ozone assessments of the World Meteorological Organization. Most of MTPE's satellite missions have international participation, ranging from simple data sharing agreements to joint missions involving provision of instruments and spacecraft. International direct contributions to MTPE missions total $4 billion, while cooperative agreements on data exchange provide access to U.S. researchers to $4.7 billion in other foreign programs. In total, our international partners' contributions exceed NASA's investment, and we are working aggressively to improve the integration of our joint efforts as their contributions increase.

MTPE includes a growing web of commercial partnerships, ensuring a broader distribution and use of MTPE science results while stimulating the U.S. commercial remote sensing industry as a byproduct of MTPE activity. The worldwide market for remote sensing products was estimated at approximately $1 billion in 1995, and may grow to $10–$15 billion in the next 10 to 20 years. In 1997, a commercial firm is planning to launch a satellite instrument to measure global ocean "color" (phytoplankton concentration) to satisfy both MTPE research needs and to sell data to commercial fishing concerns. Also in 1997, two satellites built by industry in partnership with NASA (Lewis and Clark), will demonstrate hyperspectral and high resolution land imaging technologies and will test the market for such data. A new and growing industry of "value-added" data processing companies is taking data from MTPE satellites and combining them with other data to produce information products for sale to timber companies, State and local governments and others with a need for geographic data. Many of these NASA/industry partnerships are implemented through the Earth Observation Commercial Applications Program (EOCAP) managed by NASA's Stennis Space Center. Mission to Planet Earth released its Commercial Strategy last month, which is designed to foster these partnerships.

Other creative partnerships also further the application of MTPE data to practical problems. MTPE is assisting the City of Scottsdale, Arizona, to apply remote sensing data to a broad range of needs such as flood management, urban planning, and environmental compliance; we are also working on final definition of a pilot program that develops local government applications of satellite imagery in Cayuga County, New York. NASA and several partner agencies are planning a series of regional workshops in partnership with regional authorities and local universities to look at hydrology in the Southeast, and perhaps fisheries in the Northwest, and agriculture in the Midwest.

*Staying on the Cutting Edge of Science and Technology*.—MTPE has adopted an evolutionary approach to fulfilling its mission and goals. During 1995, NASA conducted a comprehensive review of the entire MTPE enterprise. The goal was to enable: a focus on near-term science and associated applications; explicit provision for new technology infusion; reduction in life-cycle cost of the EOS program; provision of new science opportunities through smaller, quicker and less expensive missions (the genesis of ESSP); and closer participation with other Federal agencies (especially NOAA), commercial firms and international partners. The result of this review is an EOS which is lower in life-cycle cost, more flexible in implementation, and of greater utility to the science and commercial communities. Our basic approach has been endorsed by the National Research Council (NRC) through its Board on Sustainable Development.

Out of this review came planning for MTPE involvement in the New Millennium Program which conducts the development and flight demonstration of advanced, smaller instruments which will significantly reduce the cost of later phases of the EOS program. We are beginning a companion Instrument Incubator program to encourage the development of advanced instruments that may not require a flight demonstration, and a program to extend these advanced technology gains for polar-orbiting spacecraft to existing geostationary spacecraft programs. Additionally, we have recently initiated a study to examine the benefits of using a Principal Investigator-mode of implementation for EOS-Chem-1, the first in the CHEM series of EOS missions to study atmospheric chemistry. In this management mode, the Prin-

cipal Investigator who has designed the scientific instrument, is empowered to make design tradeoffs among the spacecraft, instrument, and ground system capabilities to get a more optimum implementation approach. This mode shows promise for yielding additional cost savings across the space and ground aspects of our missions. We continue to refine this plan and seek the advice of the NRC and other external groups as we progress. In 1997, NASA will conduct the first Biennial Review of MTPE. The Biennial Review will examine all aspects of MTPE with a view toward incorporating new scientific understanding, technology development, commercial opportunities and expanded collaborations with national and international operational and research satellite systems. The product of the Biennial Review will be reviewed by a panel of independent external experts from the commercial, technology, and scientific communities, and will be the basis for MTPE's fiscal year 1999 budget request development.

AERONAUTICS AND SPACE TRANSPORTATION TECHNOLOGY

In 1996, NASA combined its Aeronautics and Space Transportation Technology programs, creating a strategic alliance between them to develop, in partnership with industry, advanced technologies in aeronautics and space transportation, and to facilitate the transfer and commercialization of these technologies. It is not NASA's job to build operational vehicles, either for aviation or space transportation. It is NASA's job to reduce the technology risk enough so that industry can produce vehicles for use by both the government and commercial sectors. To this end, NASA conducts enabling, risk reducing research, along with some focused technology demonstrations. The application of this research supports NASA mission requirements while improving U.S. economic competitiveness. The Aeronautics and Space Transportation Technology budget request for fiscal year 1998 is $1,469.5 million.

As we combined these two programs, we worked with our partners in government, industry and academia to develop a strategic framework to guide our research over the next two decades. I challenged this community to develop revolutionary goals for the future; goals for pioneering, high-risk, innovative concepts and technologies to break old paradigms and create new markets for U.S. industry. They met this challenge, and on March 20 I unveiled three technology "pillars" that will shape this Enterprise in the decades to come: Global Civil Aviation, which focuses on issues of safety, affordability of air travel, and environmental compatibility for subsonic aircraft; Revolutionary Technology Leaps, which tackles these challenges for a new generation of both subsonic and supersonic aircraft, and; Access to Space, which will incorporate aeronautics technologies and operational efficiencies with revolutionary new space propulsion, control and structural technologies for launch vehicles to reduce the cost of launching payloads to Low Earth Orbit and geosynchronous orbit. Each pillar has 10- and 20-year goals that will stretch the boundaries of our knowledge and capabilities.

In Aeronautics, NASA's work goes well beyond vehicle technologies as we focus on the long-term safety, efficiency, and environmental compatibility of aircraft and the system in which they operate. Developing technologies that cannot be utilized in the system or that do not add value is not a good use of taxpayer dollars. NASA works closely with the FAA, DOD and U.S. industry to ensure NASA develops the high-payoff, critical technologies that can be used in future vehicles and systems.

The High Speed Research (HSR) program addresses precompetitive, high-risk, make-or-break environmental and economic "barrier issues" that currently prevent any manufacturer from making a commitment to build a High Speed Civil Transport (HSCT). Industry trade studies indicate that a substantial market exists for an HSCT that would travel at more than twice the speed of sound, provided that stringent noise and emissions standards can be met and that ticket prices will be roughly equivalent to those on subsonic aircraft. Successful U.S. leadership in this next-century market could mean $200 billion in sales and 140,000 high-quality jobs in the U.S. NASA is working on the technologies that should make U.S. leadership possible in this next arena of global competition. The fiscal year 1998 budget request for the High Speed Research program is $245 million.

Regardless of the success of a future HSCT, subsonic aircraft and the system in which all aircraft operate will remain the foundation for air travel in the next century. The Advanced Subsonic Technology (AST) program provides a focused technology base to ensure continued U.S. leadership in aircraft manufacture, aviation system safety, capacity and efficiency, and protection of the environment. This work will help assure that the anticipated tripling of demand for air travel over the next 20 years will not be unnecessarily constrained. NASA's safety research includes both aircraft and air traffic system work to assure the greatest possible safety gains throughout the system. The AST program also focuses on reducing the environ-

mental impact (both noise and engine emissions) of the growing fleet. Further, NASA is developing technologies that could lower both the manufacturing and operating cost of new aircraft, resulting in better U.S. competitiveness and ultimately lowering airfares to the traveling public. The fiscal year 1998 budget request for AST is $211.1 million.

NASA's High Performance Computing and Communications (HPCC) program is part of the multi-agency effort to boost supercomputer speeds one thousand-fold to at least one trillion arithmetic operations per second—one teraflop—and communications capabilities one hundred-fold. Throughout government, we have applications and requirements for these capabilities. For NASA, teraflop capability should allow us to begin to model the complete physics of an aircraft and develop a 100-year ocean-atmospheric model for climate change. Clearly, to get to the full fidelity of these models, we may need speeds of a thousand to a million times faster than a teraflop—and we will continue to work in this arena. We also will embed this capability in future spacecraft and remote exploration vehicles, greatly expanding the scientific return. The DOE recently demonstrated teraflop capability; however, this demonstration is at the theoretical peak performance which is relevant for only 4 or 5 percent of potential applications. For the majority of applications, we are at about 10 percent of our goal and significant progress needs to be made. HPCC efforts are funded in the Aeronautics, Space Science, Mission to Planet Earth and Education programs. NASA is also contributing $10 million to the Administration's Next Generation Internet initiative. The total fiscal year 1998 NASA budget request for HPCC is $73.8 million.

The Research and Technology (R&T) Base has been reorganized into six systems-oriented, customer-driven programs that serve the needs of the full range of aeronautical vehicle classes. A new emphasis on flight research has been added within the R&T Base, to "build a little, test a little, fly a little," in order to advance technologies. The new organization is reflected in the fiscal year 1998 budget request of $418.3 million. The R&T Base continues to serve as the vital foundation of expertise and facilities that meets a wide range of challenges and provides revolutionary new aerospace concepts. The new organization allows the R&T Base to remain focused on long-term technology needs while being more flexible and responsive to customers.

NASA's Advanced Space Transportation Technology program is focused on developing and demonstrating pre-competitive next-generation technology to enable the commercial launch industry to provide truly affordable and reliable access to space. This in turn should enable the U.S. to recapture leadership in worldwide commercial space transportation in the early decades of the next century. The consequences of today's high launch costs are unacceptable—it is choking off the scientific, commercial and national security potential of this Nation's space program.

The Reusable Launch Vehicle (RLV) technology program, comprised of the X–33 large-scale Advanced Technology Demonstrator and the X–34 Small Reusable Demonstrator, is a partnership between NASA and industry aimed at radical improvements in launch system cost and performance. We are focusing on six parameters: reusability, operability, reliability, safety during abort, mass fraction, and affordability. It is the goal of this program to reduce launch costs to $1,000 per pound of payload.

NASA is playing a unique role in the X–33 program, which is based on industry-led cooperative agreements. As a result of industry's leadership of the program, the Government is not playing the traditional role of overseeing and directing the work of the industry contractors. Instead, Government participants are acting as partners and subcontractors, performing only those tasks which offer the most effective means to accomplish the program's goals. The Government participants report costs and manpower to the industry team leader (Lockheed-Martin Skunkworks) as would any other subcontractor. Most NASA Centers have negotiated roles in the X–33 program. The industry-led cooperative arrangement allows a much leaner management structure, lower program overhead costs, and increased management efficiency.

The Advanced Space Transportation Program (ASTP) focuses on a broader spectrum of technological advances than RLV, with the potential to reduce launch costs well below RLV goals. The RLV is not the end of this process; it is only the beginning. We must continue to push technology to make space transportation as easy, reliable and affordable as it can be, to allow the fullest utilization of the space environment for research and commerce. The ASTP aims at a cost-to-orbit measured in hundreds, not thousands, of dollars per pound. Major near-term efforts include the Low-Cost Booster Technology project and Advanced Reusable Transportation Technologies project.

SUPPORTING ACTIVITIES

NASA's request for Space Communications continues the critical services essential to the success of every NASA flight mission, from interplanetary spacecraft to the Space Shuttle to aeronautical flight test. The fiscal year 1998 budget request for these activities is $646.5 million. Funding for components of the basic NASA infrastructure and institutional facilities is included in the Construction of Facilities budget. The fiscal year 1998 budget request for these activities is $159.4 million.

NASA's civil service workforce is at its lowest level since the early 1960's. The overwhelming success of two buyouts conducted in the past two years, and an aggressive constraint on hiring, has allowed NASA to achieve unprecedented reductions in the civil service workforce, and meet the Administration's streamlining targets earlier than planned. NASA is committed to continuing its downsizing efforts, to reach an FTE level just below 18,000 by fiscal year 1999. The fiscal year 1998 budget request for Research and Program Management, which includes the salaries, travel and supporting infrastructure for NASA's civil servants is $2,070.3 million.

The fiscal year 1998 budget includes several initiatives to improve the planning and budgeting for the acquisition of flight projects. The President's budget request includes a request for advance appropriations for several of NASA's programs. These programs include development of the International Space Station, development and launch of the Space Infrared Telescope Facility (SIRTF), development of the Stratospheric Observatory for Infrared Astronomy (SOFIA), the X–33 experimental launch vehicle, and development and launch of the Tracking and Data Relay Satellite Replenishment spacecraft. The incremental budget authority required in fiscal year 1998 for these projects is included in NASA's budget request. The Administration is requesting approval of language which would appropriate fixed amounts in future years to complete development of the projects.

One of the Zero Base Review recommendations was to manage NASA's programs on a "full cost" basis, including direct and overhead costs. Although there is no other way in the private sector, the NASA financial and program managers have been working hard to make this management philosophy a reality within NASA. NASA traditionally has considered funding for its programs separately from funding for the civil service workforce and institutional support. Under full cost management, the total cost of any activity—including direct, indirect service pools, and agency overhead costs—will be captured together. Management on a "full cost" basis will improve NASA's decision process by motivating managers to operate more efficiently and allowing a more compete analysis of the true cost of project activities. Implementation of full cost management is integral to the management changes that we have instituted over the past year. The designation of Lead Centers for program activities, and the movement of program management authority and responsibility out of Headquarters to the field centers will be completed with the implementation of full cost budgeting and management in NASA. We will work closely with the Congress as we implement our plan to accomplish this.

CONCLUSION

Since 1918, NASA has been a terrific investment for the country. We do very real things to make life better for all Americans. Whether the concern is the environment, health care, the economy, or our children's education, NASA is making a unique contribution. One way we do that is by preserving U.S. leadership in cutting-edge science and technology. Our past work has led to tremendous breakthroughs in such diverse areas as mobile communications, air transportation, biomedical research, information systems, and new industrial tools. These types of new technologies mean a stronger America, but not without the workforce of the future to support the new technologies. NASA nurtures America's students to give them better opportunities for the future; our education programs reach more than 3 million people each year, from elementary students to post-graduates. NASA is an investment we must continue to make, so future advances can keep our country strong and benefit our citizens.

Some will say the NASA budget request for fiscal year 1998 is not enough. I do not agree with that. When I look at the President's budget submission, I see a vote of confidence from the President. The President's request indicates that he recognizes what it takes for NASA to do its job.

This is an extraordinary time for civilization and this Nation. For the first time, we have achieved the level of understanding and technical capability that allows us to grasp the full meaning of our origins, our history, and our context in the Universe. For as long as humans have been able to think, we have been explorers, inventors, and dreamers, pondering how the Universe came to be as it is, how the richness of life on this planet developed, and whether life on Earth is unique in the

cosmos. In the past, these questions were answered by speculation and myth. Now they can be addressed with the scientific soundness of evidence and quantitative analysis.

We are nearly ready to begin construction of the International Space Station, ushering in a new era of living and working beyond the confines of Earth's gravity. We eagerly await the discoveries and inventions we cannot yet imagine that will be made possible by this orbital research facility.

We also stand at a new threshold in the understanding of our planet, as Mission to Planet Earth already is providing groundbreaking new information on the systems at work on Earth. We are working toward a future where we understand Earth's systems and the influence and impact of the human race on them; the benefits for humankind will be diverse and far-reaching.

In Aeronautics, thanks to NASA research the early part of the next century may see the advent of the first affordable supersonic transport aircraft, with its attendant benefits for the global community and the U.S. economy. Air travel on the whole will become even safer, less harmful to the environment, and more convenient.

NASA technology will enable a whole new generation of launch vehicles that will make access to space affordable and reliable, allowing the proliferation of new uses for the space environment, many of which we cannot yet imagine.

NASA is ready to deliver on this vision for the future. We will continue to work closely with the Congress over the coming months as we implement our programs for the benefit of the American people. We believe they will see the value of the work NASA is doing and the work we did to get here.

## INTERNATIONAL SPACE STATION

Senator BOND. Thank you very much, Mr. Goldin.

Let me begin with some of the major questions we have. Senator Mikulski and I both have mentioned the current problems with the construction in the international space station. Although we do not like to think of worst case scenarios, were the Russians to fail to deliver the promised hardware and services for the Space Station Program, including the service module and other obligations such as the science power platform and resupply launches, what additional budgetary resources, what additional dollars would be needed to complete the Space Station Program?

Mr. GOLDIN. To answer that I would like to give you a phased approach which we have developed, if that is OK. Based on activities in Russia in the last 6 months, we have made a decision that we must move out immediately and build an interim control module with the Naval Research Laboratory, and make modifications to the American-owned FGB tug, and make appropriate modifications to the shuttle to handle refueling in orbit. We believe this is prudent, and we are proceeding with that. Our estimate to complete that will be about $250 million.

We set up a set of criteria with the Russians, and said we are going to have a meeting of the Space Station Control Board on May 14 of this year, and at that time we have to decide whether to baseline the service module or the interim control module for launch in December 1998. We set up three criteria. Criteria one, did the Russians get 400 billion rubles in April of this year; second, did they hold a general designers review with all their subtier suppliers validating that they could meet the December schedule, and convincing us that they were on track; and third, has the money flowed to the subtier suppliers. We will be reviewing all this data.

The preliminary data says from the Russians they have received 473 billion rubles as of today, so they met the first threshold. We had the general designers review, but we want to validate the money has flowed to the subtier suppliers. So we have a team in

Russia that is validating that now. So on May 14, it is a decision time.

Following May 14 there are two other milestones they have to meet. By July we expect that they will have the remainder of the funding that they requested. We are assuming by the end of May they will have 800 billion rubles. By July we would expect that they will have the remaining 700 billion rubles. If that is the case, we keep the service module baselined and proceed.

At the end of September, they are supposed to ship the service module, which is through assembly at Krunichev, to the RSC-Energia factory for final integration. If they meet that milestone, we will proceed.

Now, if they miss any of the other milestones, we will make a decision to baseline the interim control module and start phase two—if they miss the July deadline or the September deadline. That would be the commitment of an additional $50 million, and if we deem it necessary to go ahead and build an additional interim control module and the associated equipment, then the funding could get very high, to be a fraction of $1 billion.

In 1998, if the Russians still do not perform, and we have no reason to believe that they will not, but if they still do not perform, we would then have to start thinking about purchasing crew rescue vehicles and providing the infrastructure with the United States and our other teammates, which would drive the cost up even further.

But that is the structured plan that we have. We have very specific milestones at which we review the data, but we have already committed to build the interim control module and associated equipment.

### SPACE STATION FUNDING CAPS

Senator BOND. NASA has agreed to certain caps on the construction of the space station, including annual caps of $2.1 billion and an overall cap of $17.4 billion. Where do you stand relative to these funding caps? At what point would you have to seek congressional authorization or change in those caps? You have indicated several stages. When do you get beyond the capacity to fund that out of the caps that have been laid out?

Mr. GOLDIN. First, let me say that I think having a funding cap of $2.1 billion for the last 4 years has been terrific. It has forced the discipline into NASA. We have gone through 4 years, and we have held the program on schedule and on budget.

We had a few problems—the Russians. When we set up the funding cap, we did not assume that we would have to cover lack of performance by the Russians, and our comptroller tells us that over the last 4 years, out of our reserves, which we set aside for our own contractors, we have had to cover about one-half-billion dollars of additional costs to American contractors to cover the Russians. This has caused our reserve situation to be very, very spotty. In fact, we believe we are going to make it through 1997 with just some tens of millions of dollars of reserve left at the end of the year for that year, and our reserves for 1998 look thin, but we are not giving up.

At this point in time, we are going to try and live within this $2.1 billion cap. We have just under $1 billion in total program reserves. We do not intend to do anything stupid. If we do feel we are beginning to get to the point where we have to pull out-year reserves into the present year, we will come and seek approval from the Congress. But I want you to hold our feet to the fire until that point in time comes.

The last point I want to make is with regard to handling this present Russian situation, the $250 million that we are talking about to cover the interim control module and associated equipment is outside of what we had agreed to do, so we are proposing to transfer funds within the human space flight account and other accounts to cover that money, and we view that as outside our commitment on the $2.1 billion.

Senator BOND. Thank you, Mr. Goldin. I can assure you we will be required to hold your feet to the fire. We do not have room to do anything else.

Senator Mikulski.

Senator MIKULSKI. Thank you, Mr. Chairman.

I am not going to reiterate the questions that the chairman has raised about the space station. I think we all need to stand sentry on this issue and see how this develops with the Russians. But you know, you work very hard, as does your team, to come up with $200 million in savings, which I think is outstanding and appreciated. But now we have $200 million that are going to accrue to the benefit of the Russians rather than to us. This $200 million that is now being used as a backup, of course, will accrue to ensure the fact that we will have a space station, that we will have an evacuation vehicle, that we will be able to get into the orbit we need. So I guess it accrues to us, but I sure had hoped that with all the faster, better, quicker, cheaper, $200 million in savings, that it would have gone into science or some of the other areas rather than a backup to them.

You can understand my disappointment, particularly when from this time last year till January we were really foraging for NASA's future. We were foraging. So I am not going to go over that, but I am not happy about the situation, and I know you are not. And if this is going to be a foreign policy issue rather than a NASA issue, then we have to then look at other ways to back it up rather than taking savings to accomplish that objective.

Did you want to comment on that, Mr. Goldin?

Mr. GOLDIN. Senator Mikulski, you are absolutely right. I am highly frustrated. I am very goal-oriented. I want to tell you our NASA employees and our contractors have been pouring their hearts out. They have been working night and day. They were ready to launch on time, and to have this occur is very disappointing.

I come from a world where people are supposed to do what they say they are going to do, and I am very, very frustrated about what has happened.

Saying that, we are committed to making this happen. And all I want to say is you are absolutely right in being upset, and we will do the right thing.

EARTH OBSERVING SYSTEM DATA INFORMATION SYSTEM [EOSDIS] STATUS

Senator MIKULSKI. Well, let me go on to mission to planet Earth, which I understand is on budget, and also for the first time the House has actually included it. And we appreciate again Mr. Sensenbrenner and the House participation. Let me ask you—here are my concerns: I understand that while we are looking at how to gather Earth Observatory information there has been a problem at EOSDIS due to high contractor work force turnover. And then you have had to again jump in and bailout, provide the backup to this.

Could you tell us the status of EOSDIS? Who is really going to be doing EOSDIS? Is it going to be a private contractor or NASA staff, and is this really one of the fragile parts of this whole endeavor? Because to me, without this there is really question about why to have the program, other than say we have gathered data.

Mr. GOLDIN. First, let me say this is a case where a U.S. contractor did not do what they said they were going to do. They wrote a nice glossy proposal, and month after month they made loads of promises. But one of the things that is wonderful about NASA is we have a terrific civil servant work force. We descoped the program. We took work away from the contractor so we could hold the program on schedule and on budget, and the employees at NASA Goddard are saving this contractor. And I am very, very proud of them, and very displeased with the contractor.

Senator MIKULSKI. So where does that, then, leave us?

Mr. GOLDIN. We are going to be on time and we are going to be on budget. What we have done is we have broken the contract down into smaller pieces, and we have very focused outputs from the contractor. We are going to be testing a series of releases in the next few months with the scientific community to get a headstart. And because of the reduced workload on the contractor, for immediate deliveries which the civil servants took on, and we told them do not worry about the follow-on business because we do not know if we are going to give it to you, you just focus on the deliveries for the EOS AM1 platform and Landsat, and if you convince us that you know what we are doing maybe we will allow you to complete the contract. Otherwise we will recompete it.

Senator MIKULSKI. Do you also feel, though, that the software science is such that it will lend itself to truly being able to catalog, archive, and organize the data in a way that it will be available not only to scientists or universities, but also for commercial applications?

Mr. GOLDIN. The answer is yes, but I want to tell you, I have been in this business 35 years. This is one of the most difficult software jobs I have ever seen, and we have had advice from our Advisory Committee, who are suggesting to us that we go to more of a federated approach and involve our scientific investigators in some of the data processing activity, they believe that we will get closer to that goal by having the scientists closer to the data than the contractor. So we will be rebalancing this over the next year.

We have a biannual review this summer by our Advisory Committees, and we will be able to keep it on focus. But I am optimistic it will happen.

There is one last point I would like to make. The software business has mushroomed with companies like Microsoft and the other companies that are in the software. They are hiring our contractor employees and our civil servants at an alarming rate. They are paying them salaries well beyond what the aerospace community could afford, and over the next 2–3 years I am very, very concerned about this. And it is good for America, but for NASA, with our limited budgets and what we could pay people and our contractors and what they could pay people, this is the only thing that I am worried about, Senator Mikulski.

Senator MIKULSKI. Well, Mr. Goldin, I see that my time is up. I am worried about it, too. First of all, in my talks with our European counterparts, they really are targeting the commercial applications of Earth Observatory data. And we are No. 1. We are going to be No. 1 in gathering it, and I believe we should also be No. 1 in the commercial applications, knowing that information should be free to certain segments in our society which is so terrific.

But I think also, and this is not the hearing to go into this, but I am continually hearing about software engineer shortages, as well, in the private sector. And at the same time, I have people graduating from very fine universities in my own State and even in this metropolitan area with degrees in physics, with degrees in mathematics, and they cannot get jobs. They bought this National Science Foundation jazz about shortages, and now you have this. You have a very disgruntled group of young people with excellent undergraduate degrees and some even masters degrees.

Now, I do not know if you and the science advisor and the Science Foundation need to get together and talk about a crash program for software engineers, the ability to quickly retool those people in physics and engineering. I mean, we do these things when we have air traffic control shortages, and I am not trying to—I mean, I do not know enough. I am not drawing these comparisons. But I do know that there are people with excellent degrees in math and in science that cannot get jobs. Then we have the software shortage. They are so saddled with student debt that they cannot go to get that. And then here we are.

And what I find from the Science Foundation and so on, kind of this rocky approach that says oh, we are behind and we compare ourselves to other countries. But I do not find a quickstep approach to solving that. And I hope that you talk with that leadership to see what we are going to do. But we have got some big problems. And it shows itself up here. I think we have a big problem in terms of our attitudes, the way universities are training people, what they are advising people.

I know the chairman wants the red light to flash a little bit more for me, but I feel very strongly about this and, Mr. Chairman, I have people who really went way out to get undergraduate degrees in science because they were told that they were needed. Now they find that maybe they are and maybe they are not. But where there are needs we have no way then of quickly moving them perhaps into a graduate program almost like an officers candidate school in software engineering.

Senator BOND. Thank you, Senator Mikulski.

Normally we go back and forth, but Senator Boxer was here earlier and has another hearing. She had just a couple of quick questions, so I will recognize Senator Boxer.

NASA BUDGET

Senator BOXER. Thank you very much. And, Senator Burns, thank you for your indulgence. I will not take my full 5 minutes because I am late for a Banking Committee hearing.

Senator BOND. Do not worry about it.

Senator BOXER. Let me just say, Mr. Chairman, that in general I think this budget request is a good one. Last year's NASA budget request called for steep declines in several key programs, and the cuts would have been particularly hard on the space science budget and could have caused irreparable harm to NASA's basic research program. Having said that, I would like to ask unanimous consent to put my full statement into the record.

Senator BOND. Without objection.

Senator BOXER. And I will not read it.

PLANS FOR RESEARCH AIRCRAFT

California is a space State, and it is not only that we have Government employees working there, we have a tremendous private sector, as you know, Mr. Goldin. And we are getting to the point where our space infrastructure is as important as our bricks and mortar in the State that I represent.

I have one question I would like to ask, and then I will submit others for the record. Could you specifically comment on your plans for research aircraft currently housed at NASA Ames Research Center?

Mr. GOLDIN. Yes; we are studying the most expeditious way of performing our research with aircraft. We are probably a week or 2 away from a final decision on the disposition of this aircraft. We are coordinating this with the Office of Management and Budget and the administration, and I think we should be prepared to have a final decision within 1 week or 2.

AIRCRAFT CONSOLIDATION PLAN

Senator BOXER. Would you agree not to make any aircraft moves, if, in fact, that is the recommendation, until the GAO is able to conduct an independent review of the conflicting data?

Mr. GOLDIN. I think that the time has come to make a decision yes or no. We are just running out of time. There is a very bad situation developing because we do not have this disposed. People do not know where they are going to live. We are worried about if we let this go on much longer we are going to have a potential problem in aircraft safety, and we believe a decision has to be made in the next few weeks.

The inspector general has done a study at NASA. They have validated that moving the planes from northern California to southern California will save us money. It will cost about $9 million up front. The payback is about $3 million a year. So within 3 years we are revenue neutral, and we will be saving $3 million a year after that.

Should the decision be positive, we believe we will have to move out on this. Otherwise I am just worried it will go on a little longer.

PREPARED STATEMENT

Senator BOXER. Well, I will not take up any further time in deference to my colleagues, but, Mr. Goldin, there are a lot of conflicting numbers out there. One says it is $3 million, one says something else. So I hope you and I could talk before the final decision. I would appreciate that.

Mr. GOLDIN. I am committed to that.

Senator BOXER. Thank you very much.

Thank you, Mr. Chairman. Thank you to my colleagues.

[The statement follows:]

PREPARED STATEMENT OF SENATOR BARBARA BOXER

Thank you Mr. Chairman, and thanks also to our Ranking Member, Senator Mikulski. I may be called to leave this hearing early, so I will try to keep my opening remarks brief.

I believe this budget request is generally a good one. Last year, NASA's budget request called for steep declines in several key programs in coming years. These cuts would have been particularly hard on the space science budget and could have caused irreparable harm to NASA's basic research programs.

This year's budget request has addressed these issues by providing a stable budget forecast for the next five years. This stable budget environment has enabled NASA to accelerate the Origins Program and several other important initiatives which I strongly support.

Mr. Chairman, California is very much a "space state." True, many NASA employees and programs are based in my state, but space commerce in California extends far beyond that. Space-related industry and commerce is now an integral part of the California economy. Our telecommunications, entertainment, software, and computer industries depend as much upon space and satellite technology as traditional industries depend upon bricks and mortar.

I am especially pleased by the progress of NASA programs which recognize the leadership role of industry in space technology development. The best example of such a program is the X–33 reusable launch vehicle. In my view, the X–33 will forever change the way new generations of space transportation systems are developed. I look forward to hearing from Administrator Goldin on this and other issues.

As I mentioned in my opening statement, I strongly support the additions made in this year's request for space science research. Could you tell the Committee about the new programs NASA has launched as a result of this new budget outlook?

I believe that a key NASA objective for the next decade and beyond must be to reduce the cost of access to space. Could you tell us how far you believe the cost of access to space can fall? What are the implications of lower space-launch costs for NASA, other government agencies, and the private sector?

Senator BOND. Thank you very much, Senator Boxer.

Senator Burns.

Senator BURNS. I have got a great idea. Move the airplanes to Montana. [Laughter.]

Senator BOXER. That is not in the mix.

Senator BURNS. I will save you lots of money.

Senator BOXER. No, you do not get it. We do not want them to move to Montana. Let us be clear on that. [Laughter.]

Senator BOND. Senator Burns.

NASA BUDGET/RESERVES

Senator BURNS. First of all, Mr. Goldin, thank you very much, and thanks for this budget. I think we are still very, very tight, and it is the belief of this Senator that we are on the nub. I do not think we can complete our missions that we want to and still con-

tinue this funding. In fact, I am thinking one of these days we are going to have to take a better look.

I am not at all concerned about the $200 million in reserves, pending that should the Russian situation deteriorate. I am a believer in reserves. I think every department in this Government should have reserves. We maintain reserves at every other level of government in this country in preparation of some things that may come unraveled, and we are not coming back for a lot of supplemental appropriations or trying to explain exactly what is and what is not the case with certain situations.

SCIENCE MISSIONS

I have just got one question in particular. Scientists have been visiting my office with concerns that there is a disconnect between the views of the scientific community and the picture presented by NASA. One issue that is after the 1998 NEUROLAB mission, there are no planned science missions until the station is operating. They are concerned that they are going to have a hard time hanging on to the scientists that they have in the interim, and pending some funds, I understand. Could you address that for me, please, and bring me up to date, and are you aware of that situation?

Mr. GOLDIN. Yes; I am. I think the scientists are correct. We are doing two things. First, we are continuing to build a scientific base for ground-based research supporting the space station, and we are going to ramp up from 650 scientists at present to 850. That ramp-up continues on a continuing basis.

We are exploring the possibility of between two or three additional shuttle flights because the Russians have slipped the up-front schedule, and one of those flights we are considering will be a life sciences flight. In fact, there is so much good science on NEUROLAB—I mean, it was so hard picking that science, we think that there is enough good science from the proposals we got for a follow-on to NEUROLAB. And that is one of the missions we are considering. We are looking at another microgravity mission, and in the months ahead we will be able to finalize that.

But I agree with your concern, and we will be addressing it. We will be trying to find the money, which is very, very important, because at NASA the rule is we are committed to fiscal responsibility, so for every upper we must find a downer. So we are searching the budget to figure out how to pay for it.

MISSION TO PLANET EARTH

Senator BURNS. In the area of mission to planet Earth, I think it was pointed out in particularly the last 6 months, that we are, in our sensoring capabilities. I am glad that mission to planet Earth has been funded. The information and science now make a lot more sense, that we are gathering, than it did 1 year ago, as everything takes a while. We just did not know what we were going to do with all the information that we got, to be honest with you, and how that pertained to our mission to planet Earth.

I think with some revelations in our forestry, in our agriculture, and in our water supplies—now, I realize that you will have a hard time telling the folks in Grand Forks, ND, that there is a shortage in some areas, but nonetheless, those problems continue to plague

this country and the management of our natural resources. And I just happen to believe that the mission to planet Earth is very, very important and will play a key role, especially in forestry. The images that we are getting now and the sensoring that we are getting now are very, very good, and we are establishing, I think, our inventory of what our resources really are, our growth rate, and this type of thing. And that is very, very important to the wood products industry of this country. So I am very, very happy about that.

NASA/RUSSIAN SITUATION

I am concerned with the Russian situation. I think all of us are concerned about the Russian situation. And knowing the internal problems that the Russians have, I do not see this situation getting any better in the near future. If we can just maintain somewhere close to where we want to be, I think we will be very, very fortunate. I do not know how it could deteriorate any further, but I continue to monitor that, and I am very, very concerned about it.

NASA'S OUTREACH PROGRAMS

And that is all the questions I have. Your outreach programs are very, very good and they are doing what they are supposed to do. I think it continues to be an agency that, even though Senator Mikulski has some concerns about our math and our science people that are motivated to go into those subjects of study, and because of our outreach in this society, we can still use a few engineers over in agriculture. So maybe sometimes these young people are going to have to focus maybe not on space, but they could help us in other parts of this American economy.

I get the biggest kick out of—this is an old story of Kika de la Garza, and I continue to say this to be true about when they built the first nuclear submarine, and it could make its own air, it could do everything, they could stay under, submerged for long periods of time. And one of the captains, I asked how long can you stay under? And he says until we have to come up for food. So we do not want to forget that that is an infrastructure that is very, very important to this, too.

But I appreciate the work you are doing, and that is all the questions I have. I might have a couple more, but we can work those out.

MISSION TO PLANET EARTH

Mr. GOLDIN. Could I respond to that, Mr. Chairman?

Senator BOND. Please.

Mr. GOLDIN. There are three important points you made. Senator Mikulski expressed a concern about taking the results from mission to planet Earth to the people. It is very important. And I would like to thank you and Senator Dorgan for the support for a program we are working on in the High Planes area with Montana, Wyoming, North and South Dakota, and Idaho, to take the data from mission to planet Earth to the people, to the farmers, to the forest products industry, to people that are selling grains. And this is very, very exciting. It is taking science in very abstract terms

and putting it into terms that people understand that help their pocketbook and help raise their children. We have pilot programs around the country like that and, Senator Burns, you have been very supportive of this, and we appreciate that.

Senator BURNS. Well, not only is it important that we get the information and we understand the information, now we are learning how to use it. But also is the extension, how do we get that information on the ground where it makes it applicable. And we have seen that grow since I have been on this committee, and Senator Mikulski and I know there have been a lot of us that have supported that. We have had a scrape or two along the way, but nevertheless, I think it is paying very handsome dividends.

The American people have got to understand that there is more application to our space program than just going into space or what Hubble has done, and that has been a marvelous, marvelous advent into the space program, but we also want the American people to understand that some of the science is coming home, and it positions this country to do a lot of work around this globe with regard to this little piece of mud that we are whipping through space on.

So I appreciate your work because the outreach and the extension is just as important as the gathering and understanding of it.

Senator BOND. Senator Burns, thank you. You saved me one of my questions. I was going to talk about partnering.

Mr. Goldin, you had some further comments, but right now Senator Mikulski has to go to a hearing, and I want to give her an opportunity to get in a couple more questions. Save those good thoughts that you had in answer to Senator Burns, and when Senator Mikulski finishes we can go back to that, and I might even ask a question.

CONSOLIDATED SPACE OPERATIONS CONTRACT [CSOC]

Senator MIKULSKI. Mr. Goldin, I have to join Senator Sarbanes in introducing the new Director of the CIA nominee for his hearing. I have many questions, and look forward to talking with you even after this hearing. But let me focus on something called the consolidated space operations contract. Having just looked through it, it seems to me that this could be one of the most important procurement contracts to be issued by NASA, and also because we are talking about a Space Operations Management Office in Texas, I would have these questions: No. 1, what is the consolidated space operations contract. No. 2, how will the savings be achieved? Will it be achieved through more layoffs? No. 3, will it also result in job shifts from existing centers; for example, Goddard to Texas, which, of course, would be of concern to me? Do you want to talk about this? Because I think this is a little sleeper here.

Mr. GOLDIN. We have decided to run a competition to bring together all our space operations. We have a lot of duplication of facilities around the country. There are things that have to be done in specific places. So to sort that out, we wanted to get some of the leading contractors in the country working with us. We have received some proposals. We have to evaluate them. But the purpose is to streamline it.

The second approach is that we believe that there is some tremendous opportunity to use this consolidated space operations con-

tract to cover a lot of commercial activities. I am not sure whether it will be a downer or an upper, because if the companies bid in an appropriate manner, instead of having each of these new commercial activities which has an operating contract build their own control center, there is opportunity for consolidation. We are looking for creativity in this part, too.

So I do not know whether in the total picture it will be less people because the Government will be able to hopefully take advantage of some commercial activities. But we do hope in the long run to have the Government save dollars.

Senator MIKULSKI. Well, is that the focus of it, commercial activities, or is this a closet kind of base closing commission for NASA facilities?

Mr. GOLDIN. I do not see it as a closet base closing activity, and until we have the proposals from our contractors, I do not know exactly what the whole impact is. But we have made estimates that we could save a significant amount of money, and we want to have much more efficient, much more vibrant operations of our spacecraft activity.

Senator MIKULSKI. And we all support that. But you can appreciate the fact that there is a lot of water cooler talk that comes into my office that this really means that it will be downsizing and major shifts of jobs to Texas.

Mr. GOLDIN. I would be very surprised if people move jobs just to Texas for the sake of moving it to Texas. But the thing that we will be doing throughout this competition is we will be working with the members who have an interest in this, keeping them appraised of the directions that we are going, to make sure we do the right thing for the American Government.

SPACE SCIENCE PROGRAMS

Senator MIKULSKI. Well, I want to talk with you further about it.

I would like to just shift 1 second to space science, and, of course, I think we are all tremendously excited about the next generation of the space telescope; the Origins project, of course, offers many new opportunities; and then, of course, we have the new millennium funding. One of the things, though, that I look at that much of the new science, about 85 percent of it will go to JPL, is that right?

Mr. GOLDIN. I do not believe so, because it will be done by contractors, it will be done in different NASA centers, and, in fact, we have the folks at Goddard working with JPL on a lot of the advanced technology activity.

The next generation Hubble telescope, which is part of Origins, will be managed out of NASA Goddard, and there are a broad range of activities that will be managed at Marshall, Goddard, and Langley.

Senator MIKULSKI. Well, Mr. Goldin, I look forward to hearing more about this. I know my time is up.

I learned a lot about the space program from Senator Garn. And then through that then got connected to both Admiral Truly and now you. What I feel I learned from you was a lot of your private sector know-how that you brought to the management of NASA,

and I think ultimately you will be recorded as one of the most innovative managers we have had since the creation of NASA.

Having said that, you essentially introduced competition even within NASA for better ideas, more efficiencies, and so on, and we would hope that this kind of competition for excellence, competition for efficiency which ultimately is savings, better ideas, faster, cheaper, also continues to be reflected in the space science so we do not end up with like scientific cartels within NASA.

So I look forward to hearing more about it because I think the management approach that you have often had, which is it is not wedded to a particular facility but the outcome we seek, is one that has really served NASA well.

Mr. Chairman, thank you, and we will look forward to continuing this conversation. Thanks a lot.

Senator BOND. Thank you very much, Senator Mikulski. I appreciate your kind words about Dan Goldin and his efforts. And I second those and would agree with you on those words.

Mr. Goldin, you had some comments. Did you finish responding to Senator Burns, or do you have others?

Mr. GOLDIN. Well, before Senator Mikulski leaves I would like to say that she is absolutely right about her concern of retraining, and I had not thought about that issue, and I will be coming to see you after I have discussions with the senior executives at the White House and our own sister agencies. This software problem is not going to go away. It is only going to get worse, and I am worried about the future of America's space program. We will work with you on that subject.

Senator MIKULSKI. Well, Mr. Goldin, I want to be clear and I want everyone in the room to be clear and the press here. I in no way object to young people pursuing basic degrees in science, whether it is physics or math or any of the other wonderful endeavors. But often they are being educated to then go get doctorates to then train other doctorates. I think not only do we need to take a look at this shortage area, but I think American universities need to retool their thinking and help to get our students ready for the real world that they are facing.

That is in no way to talk—but I think we need a multiple kind of thinking in that the Ph.D.'s we need will not only be in the universities but out there working with you on how to translate and do the commercial work that we have talked about.

Senator BOND. Thank you, Senator.

Further comments that you had on your list?

RUSSIAN SITUATION

Mr. GOLDIN. Yes; I do. With regards to Russia, we have a benefit of working with the Russians. I want to say for the record that I am very, very favorably impressed by how the Russian Space Agency—not the Russian Government—has been resilient to work with us. We have been through some very tough times with them, and they have turned out to be very good partners.

My frustration is that the Russian Space Agency is not getting the funding that they need. And this is a case where the Russian Government is going to have to do what it says it is going to do,

because we cannot have international agreements and keep looking over our shoulders.

Now, the news so far is good, that we think they are back on track. But I want you to know that we are going to build that interim control module. I think building the interim control module has gotten some attention in Russia, because everyone now sees we are going to build this space station no matter what. We are no longer debating it.

The last point I want to make is that for the record I would like to clarify. I think there is some sense that this $200 million we are going to spend in fiscal year 1997, with concurrence from your committee and the other committees that oversee us, is not going to be all spent in Russia. Only about $30 million will be spent in Russia. One hundred seventy million dollars will be spent in the United States of America. So I just wanted to correct that impression.

Senator BOND. I have your letter of May 5 indicating that to fund that $130 million is going to come from the "Human space flight" account, opposed to $200 million, and $70 million will come from the mission support appropriations to human space flight.

Mr. GOLDIN. If the appropriation transfer is approved, that is the way it will be.

SHUTTLE SAFETY

Senator BOND. I would just like your assurance that reshuffling will not interfere with shuttle safety efforts or undermine plans to launch scheduled payloads. Are you going to be able to avoid those problems?

Mr. GOLDIN. I can say unequivocally yes.

Let me say this to you: There was a comment made that I thought about, it was internal back of uncosted money. I would like to correct an impression. NASA has built up additional moneys in the uncosted area not because our people are bad, but we have undergone tremendous change. This was an agency that had 77 percent average cost growth on its top 29 programs just a few years ago. And now we are underrunning 6 percent. We put a very, very serious commitment into our employees and our contractors to do what they say they are going to do. So as the budget has been coming down, our employees are so determined not to overrun contracts that they are perhaps overcompensating on how they apply their reserves.

We are correcting this situation. Last year we believe it had peaked out, and over the next few years we are going to bring it back to historical levels. We have been tracking the rate at which we have been obligating funds, and they are now back to our historical average. In fact, it is a little bit above that. So that was the first point I wanted to make.

Second, our people on the shuttle program have been doing an outstanding job. In the past, if they had reserves there was an attitude let us spend the money before the end of the year or you will lose it. We have put a very serious focus on not doing that. And it is really a good news story. And we are now taking those reserves and applying them to things that are very important to the program.

But saying that, I am absolutely committed to safety. We are planning on spending an additional $100 million a year on handling obsolescence problems in the shuttle which deal with safety, and our safety metrics are terrific. As the budget came down $1 billion a year on the shuttle, we have tripled the reliability on ascent for that shuttle, and we have cut the number of on-orbit anomalies one-half, and we have cut the overtime, so every single metric we have says we are focused on safety. So I commit to you that we will stick on that track.

SPACE STATION—OUTYEAR REQUEST

Senator BOND. With respect to the space station, the United States side, if the Russians deliver as promised, which obviously we hope they will do, the out-year request goes from $2.1 billion today down to $1.5 billion by 2002. Are you confident that the agency can, assuming the Russians stay with their commitments, that the agency can accomplish the mission with that declining resource for our United States portion?

Mr. GOLDIN. Let me say this is the toughest job I have ever been in in my life. I have been in the aerospace business 35 years. It is a real challenge. I want to tell you, I am so proud of this team. Four years ago we redesigned the station and we took out some billions of dollars, and we have held the schedule and held the budget. Each year the reserve looks like a cliff, precarious. We have worked through it. We are now in the toughest part of the program, because we are building hardware, and next year we are going to be launching it. I am cautiously optimistic that our reserves that are just under $1 billion will take us through and allow us to come down that curve.

I recommended to you that you keep our feet to the fire, and I am going to keep everybody else's feet to the fire on holding that cap. It is going to be rough. We are going to face some problems. If we feel we have come to a point where we have an issue where spending a little bit of money above the cap will save us in total dollars, we will come back. But right now, I do not see that, and we will just keep on chugging.

Senator BOND. Thank you, Mr. Goldin.

We have been joined by Senator Harkin. Senator Harkin, would you like to make a statement and/or ask some questions? We are delighted to have you with us.

Senator HARKIN. Thank you, Mr. Chairman. I just have a quick statement.

Senator BOND. Proceed Mr. Harkin.

STATEMENT OF TOM HARKIN

Senator HARKIN. I apologize for being a little late.

I would like to welcome again Mr. Goldin to the subcommittee. I am new on this subcommittee. I have been on the committee for a long time, but I decided to get on the subcommittee, and one of the reasons I wanted to get on it was because of my long-time interest in NASA and the space program, having spent 10 years in the House of Representatives and keeping somewhat in close contact with it through the intervening years.

I have some questions, but I guess, Mr. Goldin, what I really want to pursue is options. And without being at the point of second guessing, but sometimes it is good to look back and find out where we have been and ask tough questions as was that really the right approach to take. Did we really take the right course in the past? I am not going to go back and say, well, we should—but just ask that, and then to use that knowledge to see whether or not the course we are embarked upon now is the right course.

SHUTTLE PROGRAM VS. SATURN PROGRAM

I look back, I remember when the Shuttle Program was designed and we were moving ahead in the Shuttle Program, and I wondered, and there were a lot of people then that were questioning whether that was the right direction to go and whether we should continue on with the Saturn Program and the expendable vehicles that we had at that time rather than going to a Shuttle Program. Of course, at that time all the ballyhoo and the hype was on it is going to be cheap. We are going to reuse all these things. It is going to be wonderful and miraculous and all that kind of stuff. All of the savings and costs that I think were talked about at that time, I do not think much of that has materialized.

Now, I do not mean to downgrade the Shuttle Program. It is a marvel of technology. And what the people did in coming up with the shuttle and how it operates, it is just a technological miracle above all else, and it works, and it works wonderfully well. But in terms of four goals and what we are looking at down the road, had it really aided us that much in terms of space exploration?

SPACE STATION—YES OR NO?

We have had a lot of experience in near-Earth orbit. And I guess what I am wondering about now is whether or not the space station that we are talking about building is the right path to pursue, and will it really add anything. I intend to continue along this vein on this subcommittee and in the Senate in the coming months to raise these questions. And I know a lot of people have thought about it and there have been books written on it and articles, everybody has thought about this thing. But I just wonder whether or not we should not step back and take another look at it.

$35 billion? Is that what the cost is now, estimated?

Mr. GOLDIN. 17.4 plus 10.2 is 27.6 for the development and operations is about $13 billion on top of that.

Senator HARKIN. About $35 billion. And given overruns, we are talking about $40 to $50 billion.

Mr. GOLDIN. I am not signing up to any overruns.

SHUTTLE PROGRAM COST VS. SATURN/APOLLO PROGRAM COST

Senator HARKIN. I understand. I am just talking about how things happen in life. I am having some research done right now—I have been on it for some time now—on the Shuttle Program. With what the Shuttle Program costs to develop, build, operate, what could we have done with that somewhere between $12 and $20 billion? I cannot quite get a handle on the dollars. And I am just wondering if we could not—someone suggested to me not too

long ago that for what we spend on the Shuttle Program, that if we had kept up the Saturn Program and the Apollo Program that we would have today for the same price and the same money a fully operational 365 days a year manned moon base on the moon, for that same amount of money, with all that that entails. I do not know if that is true or not. I would like to find out.

SPACE STATION BENEFITS

And I would like to find out if for this $40 to $50 billion or $35 billion, whatever it is that we are looking at in the future, what are we going to get out of this space station? We have had space stations. We have had the Mir. We have done a lot of low-weight experiments, long endurance flights, there is a lot of data there. We are back, you know, to doing the rhesus monkeys. They are still shooting these rhesus monkeys. Who cares about that? We have got all that data.

And so I am just wondering if we are just not going ahead on something that everybody seems to have signed off on, but will it really add to our exploration of space, which is what I am interested in, or is it just going to be another low Earth-orbit space station, we are going to send people up there, they are going to float around for a while, they will do experiments ad nauseam, but is it really pushing the frontiers, really pushing the frontiers of space exploration? Could we use that money in a different way and for different form?

X–33 PROGRAM

Now we are talking about the X–33, and all of the arguments I am hearing on the X–33 I heard on the space shuttle, every single one of them. It is going to be cheap. It is going to be reusable, go back and forth, all this.

So, Mr. Chairman, I just wanted to take a little bit of time. That was sort of my opening statement.

Senator BOND. That was a good one. If Administrator Goldin does not hit a long ball on that one I will be surprised. [Laughter.]

This one ought to be interesting. I would say fasten your seat belts and let us see what he says. [Laughter.]

SPACE STATION BENEFITS

Senator HARKIN. We will. And there will be more coming down the pike later on, too. But again, I just wonder about what other systems could we have purchased for what we did, and what could we purchase for the $35-plus billion that we are going to put in their plus all the problems it looks like we are going to have with the Russians and everybody else on this thing. That is sort of an open-ended question, but it is the kind of thing I know you like to deal with.

NASA'S RESPONSE TO PURSUING THE RIGHT PATHS/OPTIONS

Mr. GOLDIN. First, let me say it is a fact America has been locked in Earth orbit for 25 years. Probably one of the reasons I am the NASA Administrator is I expressed a high level of frustration when I was in private industry over that subject. I came to

NASA in 1962 to take America to Mars sometime in the late 1970's. I left NASA in 1967 because I said the bureaucracy is setting in and we "ain't" going to go to Mars for a long time, so I am going to work real hard, I might as well go make money in industry, and I left.

For 25 years after the development of the shuttle, this Nation did not develop one new rocket engine, this Nation did not develop one new launch vehicle, and we watched 25 developed in the rest of the world. It is not because we had bad people. We have fabulous people. But somehow in the mid-1960's America lost its heart and soul to do risky, bold, difficult things. We analyze things to death. We involve all sorts of issues other than opening the space frontier that are peripheral to where we want to go in America. And I think that is the problem.

SHUTTLE PROGRAM

Now let us deal with the shuttle. I came back, by the way, in 1992 in the hope that we are going to Mars, because I could think of no other thing that could inspire young and old alike that America is a great country, ready to be on the frontier again.

Now, what are some of the issues? Let us go through the shuttle point by point. NASA proposed building a shuttle, and some of the bureaucracy set in, and one of the issues was NASA had to survive after Apollo. That is not a reason to build a shuttle, to keep people busy. A second issue was NASA wanted to build a shuttle and a space station, and they were told you could have one or the other. Well, you could not have a space station without a shuttle, so they went to build the shuttle. So let us not blame the NASA employees for that.

But the other part that I cannot get complete data on but I will give you my feeling, NASA was set up. They were given a program and they were asked to manage to a development and not come up with a low operating cost system. So to live with a smaller development budget they could not minimize the operating costs.

Third, the shuttle was supposed to be designed to handle DOD payloads and commercial payloads and civil space payloads. Well, what happened was NASA now has to carry the full infrastructure of just the civil payloads when DOD and the commercial payloads are elsewhere. It is against the law for us to fly commercial payloads on the shuttle. So that is part of the problem.

The next part of the problem is——

Senator HARKIN. Could you get me some more information on that one aspect right there?

Mr. GOLDIN. It will be my pleasure. I am a rocket scientist, and I have thought a lot and hard about this. [Laughter.]

SPACE STATION PROGRAM

Now, there is another issue that I feel to be very, very difficult. NASA needed something to do in the mid-1980's, so they proposed a space station at $8 billion, and this space station was much bigger than anything we have right now, and I have a videotape which I will be happy to show you of the program manager on that program saying you would think we would build this for management efficiency. We did it for political expediency.

That was the attitude in the formation of the space station. The NASA employees were not bad, but the politics of the situation were bad, and America has to decide who are we and what are we as a country. Is it the purpose of a space station to employ people around the country or is it the purpose of the space station to open the space frontier.

Well, this $8 billion turned to $40 billion, and we went for 8 years and spent $8 or $10 billion and did not build a piece of hardware, but boy, did people make profits and did they have fun.

I came to NASA in 1992, and I asked a very simple question: Is this thing going to work? I was attacked. I then checked into where all the work was being done. We had 2000 people in Reston, VA, who were trying to manage five prime contractors. Now, that is an oxymoron. It was unbelievable. The resistance to change was incredible, and the thing would not work. They did not build hardware, and spent $8 to $10 billion. Were the people bad? No; they were terrified. The political process did not allow NASA to go where it needed to go.

SPACE STATION INTERNATIONAL COOPERATION

So in 1992, first President Bush asked me to go to Russia to see if we could begin the process with the Russians, and the President Clinton had a summit with President Yeltsin where they said this is crazy, the cold war is over, why are we building competing space stations? So Russia and the United States and the other countries, Europe, Canada, and Japan said let us see if we could be sensible here, and not have an Eastern Bloc space station in the post-cold war era and a Western Bloc space station. So we made a commitment to do this.

Our partners are putting in a huge amount of money. We have redesigned the space station. We have a program which I believe is not building an engineering temple in search of questions, but we are building a space station that is asking fundamental scientific questions and then building the engineering to go with it.

SPACE STATION

Now let me deal with the space station itself. We are probably 60 percent complete. Our international partners, Europe, Japan, and Canada, of a $9 to $10 billion commitment have expended $6 billion. The Russians, with all their problems, are building 300,000 pounds of hardware which we are relying upon. On the Shuttle Mir Program, I want to tell you, as much as the Russians have been in space and we have been in space, we have learned a tremendous amount.

SCIENTIFIC BENEFITS

Let me tell you some of the scientific things we have learned. We now at NASA have something called the bioreactor. And the bioreactor is capable of building human tissue outside the human body. We have built 1 to 2 centimeter pieces of human cartilage in this bioreactor. And we did not have an opportunity to do it for months until we got to the Mir Space Station.

We have built colon cancer tumors in this bioreactor. We have built tissue from the intestine and other parts of the body. It is revolutionary, and now there is an institute, a NASA NIH Institute for three dimensional tissue growth, that is beginning to impact the medical science community.

We have been doing structured drug design on the Mir Station and the shuttle, and we are getting unbelievable results, and new drugs are now coming out on the market.

We are now finding out things of the human anatomy, and I do take exception, the Russians have been in space 10 years, we have been in space years, and we still do not know how to stop bone loss in the human body, we do not know how to start muscles from atrophying, we do not understand the depression of the human immune system, we do not understand changes in the cardiovascular system. We do not understand the impact of gravity at the cell level, which is essential for future studies in physiology on the surface of this planet.

We have an opportunity on this space station to do fundamental scientific research in the absence of gravity. In the absence of gravity there is no convection. You know, hot air rises, and it does not allow you to rearrange atoms one at a time. You have sedimentation, heavy things drop and buoyancy, light things rise. That is with gravity. Without gravity, you do not have it and you could break apart physical processes.

We have now validated two Nobel award winning theories which had not been validated before because we have these characteristics. One is a group renormalization theory and the other has to do with phase transitions. It is called the Lambda point. You cannot make those measurements on the ground.

Now what happens? Another problem has occurred in America. I call it scientific cannibalism. As the science budget starts compression, one scientist looks at some other scientist's budget and with incredible knowledge, not knowing what is in that field, says you cannot go do that. Microgravity research is now having an impact. There are thousands of scientists and in the area of combustion, for example, at the 25th combustion symposium, which is the symposium in combustion, 10 percent of the papers came from microgravity research.

There is a scientific community building, and if you look upon the space station as a laboratory which happens to be a couple of hundred miles above the Earth, in that laboratory there is incredible research, and I submit we have 14 countries involved in this research. Brazil is begging to become a part of this, a country which has terrible economic problems wants to join. The Ukraine which has a situation that is a problem—OK, so we have these countries.

SPACE STATION BENEFITS

And my final point is on the space station we will understand how people could live and work safely and efficiently in space. On the space station we are developing techniques for telemedicine and telepresence that will be essential if we go to another planet responsibly. On the space station we are going to understand how to develop countermeasures. On the space station we are doing ex-

periments on integrating robots with people. We are developing robots that will see, hear, smell, and have tactile feel. We need to understand how to do this to realistically have low-cost missions back to the Moon and on to Mars.

And my last point to you is if we want to go to the Moon and Mars and have a splash, a one-shot feel-good mission, we could do it with the kind of moneys we have. The object is to have sustained presence in the solar system. And this is done with very basic, fundamental science that takes time, it is difficult and painful. And we have set an objective of seeing how we could go back to the Moon and on to Mars for one-tenth to one-thirtieth the cost in these days, dollars of what Apollo cost. We do not want to brute force this, and the space station is going to help us develop these techniques.

We, also, in the space station redesign, put a sunset clause on the space station, so it would not go on for 30 years, which was the initial plan, and that after 10 years of operation there will be a national peer review to see if we have met the objectives on science, on exploration and commercialization, and commercialization is a major part, to see if we could then hand over the space station to commercial activities that will be taking it over. That is the fundamental issue.

X–33

Being in the space business these years, I believe this is the right thing. But I also believe it is crucial that we now look at other ways of getting into space. The X–33 is another way of doing it. It is the first time in 25 years we are developing a new rocket engine—first time. It is the first new launch vehicle we have developed in 25 years, and maybe it will crash and maybe it will not, but I want to assure you the X–33 program is not a Government program. Industry is putting in roughly 25 percent of the cost of this thing. There is no cost-plus-fixed-fee program, and we are going from start to launch in a little over 2½ years, not 10 years with a huge number of people.

We have a whole series of other programs in parallel with the X–33 that are going to help us do this, too. And finally, we have maybe 100 people in Houston, not 1,000, not 10,000 people, who have been charged with figuring out how to go back to the Moon and on to Mars for numbers that would live within the present budget we have, and as the space station gets through its completion to live within the budget wedge that has been specified, and I think you are going to see unbelievable things.

MARS MISSION

My last point is we are not waiting to go to Mars. We have 10 missions going to Mars right now. The first one from the day we started until we launch was 3 years. It was one-quarter the cost of the spacecraft that took 10 years and just went into orbit, and on July 4 of this year we are landing a robot on Mars. And 2 years from now we are going to land a robot at the polar cap on Mars and drill into the ice. We are going to be in 2005 bringing back rock samples from Mars, where in 2001 and 2003 we had robots walking all over the planet to make piles of rocks, and we are going to then collect it and bring it back.

NASA—FASTER, BETTER, CHEAPER

We are doing things for a lot less money, and I want to tell you, doing all this we turned back $40 billion, we cut our budget 36 percent, our productivity went up 40 percent, we started 38 new programs without asking for an extra nickel from the Congress. This NASA is determined to open the space frontier, and we are going to build opening the space frontier on that space station. The shuttle is now $1 billion a year less to operate, and in my tenure we have gone from $600 million a mission to $400 million a mission, and those crazy folks at the shuttle are now saying they want to take a go in the next 5 to 10 years to cut the cost by a factor of four. I do not know if they will do it, but they are signing up and improving their reliability by a factor of five, and they are going to compete with the X–33. There will be competition and there will be other approaches to do that.

So I submit this is an outstanding program that is going to inspire young and old alike, and July 4 turn on your Internet, because every child in America is going to see the mission from Mars. It is not going to be for the scientists.

Thank you.

Senator BOND. Thank you very much, Mr. Goldin. If you want to expand on your thoughts, I would be happy to admit those for the record. [Laughter.]

Mr. GOLDIN. I am a little emotional. [Laughter.]

Senator BOND. I trust that Senator Harkin may have additional questions for the record.

Senator HARKIN. Excuse me, Mr. Chairman. I do have additional questions. I will submit them in writing.

Senator BOND. If you would, please, we would be most interested to receive the questions and the response. Thank you very much, Senator Harkin.

X–33 PROGRAM

Senator BOND. Speaking of the X–33, we are obviously very interested in that. Do you now know whether you would plan to phase out the shuttle by 2010? I would be interested generally in the status of the reusable launch vehicle and the commercialization and privatization. Would you address the X–33?

Mr. GOLDIN. Yes; the X–33 is a half-scale vehicle that will go up to close to Mach 15 and fly suborbital flights over land from California to places as far northeast of that as Montana. Senator Burns is not here. That was a little commercial.

Senator BOND. If anybody wants to go to Montana. [Laughter.]

That will teach Senator Burns to leave.

Mr. GOLDIN. It is an incredible program. We have taken a new rocket engine. We are building an almost all composite vehicle, and we are going to try and see if we could retire the risk so it could be open to commercial activity.

But this is a new NASA. As Senator Mikulski talked about, we want competition. So the shuttle team is all charged up because they want to compete with it, because all of a sudden you cannot charge anything you want, and we have set a goal that within 10 years at NASA we want to get to $1,000 a pound. So we intend to

compete the shuttle against the X–33, because the next step is a reusable launch vehicle. Maybe the reusable launch vehicle will be a derivative of the X–33, maybe not. Because in parallel with that we are working on a new set of rocket engines, and we just awarded a contract for something called HYPER–X, which is a vehicle which will fly between Mach 5 and Mach 10.

Somewhere around the year 2000 we are going to have a lot more data, and at that point in time we will be in a position to start making decisions based upon what the industry thinks they could do. We view NASA's role as reducing technological risk and not getting into marketing, and we will let the shuttle compete against the reusable launch vehicle based on the X–33, and hopefully that will be a heck of a competition, and at that point we will be able to say whether we could proceed with the commercial development.

Last point, we have been talking to investment bankers, and we are trying to make NASA a place that is acceptable for private capital, and over the next year we intend to really dig in and support this. And, in fact, one of the possibilities might be that we could not just go to a prime contract on the shuttle, but the privatization and perhaps even commercialization where private capital will then take it over. And that is the best way to do it, not to have the Government make those decisions.

AERONAUTICS PROGRAM

Senator BOND. Thank you.

With respect to the aeronautics side, this subcommittee, as you know, has been a very strong supporter of the first A in aeronautics. And we are looking at the aeronautic safety initiative, and do you see any impact on other programs? What will be the effect on the aeronautics research and technology base, and would you describe generally the goals and the new goals that you have in advanced subsonic technology and high speed research?

Mr. GOLDIN. Yes; we felt that the aeronautics program was drifting a little bit, and we were not telling the American public what we were doing in terms they could understand. So we set 10 very specific goals for 10 years and 20 years out. And just a couple of them. In 10 years we intend to cut the crash rate on planes involving fatalities by a factor of 5 in 10 years and a factor of 10 in 20 years. We intend to within 20 years have planes capable of going across the ocean so that you could do business there in one day and come back, or twice the speed we have right now. We intend to cut the emissions and the noise levels of planes. We intend to cut the cycle time it takes to develop a new aircraft by a factor of two. So we set those goals.

Now, to start things off, we reprogrammed one-half billion dollars out of existing resources. Remember, the rule is in the declining budget you do not come back to the Congress and hold your hand out, you reprogram and prioritize and you make a list and the lowest priority drops off. We felt that the American public wants safer planes. It is crucial to opening up the Pacific rim, and it is crucial if we open the Pacific rim it has an American flag on the tail of that plane.

Safety is very important. The crash rate for the last 20 years has been constant. And the number of planes will triple in the next 15 to 20 years, so we must get the crash rate down. So the first 5 years we programed within our own resources, prioritized, the research and technology base is just as strong but it is now focused, and we are telling them we want safety, we want lower emissions, lower noise, faster planes, better economics, and I think it is going to change aviation in this country and have American flags on the tails of planes.

MERGERS AND CONSOLIDATIONS

Senator BOND. One final question and I will submit the rest of my questions for the record. We all know that there have been significant mergers and consolidations. One of those affects the major employer in my State, McDonnell Douglas, which may become a part of the Boeing conglomerate, and that was discussed in this Sunday's business section of the Washington Post. What kind of concerns do you have about the maintenance of a healthy, competitive environment as these mergers occur, in light of the fact you have to contract for the space shuttle, for consolidated space operations? To what extent do you see any problems for your space and aeronautics efforts with these mergers and consolidation?

Mr. GOLDIN. First let me say that in the big picture I have supported the mergers, because we were carrying an overhead base that we could not afford. So on the one hand there is a real reason. The capacity was much too great for the amount of work that was involved, and that is a driving force.

Second, let me say that there is one giant already, and that giant needs competition. So on the positive side this latest merger will cause two giants so they will compete with each other. So I think that is healthy.

Saying that, here is my concern: It is important that the words of the CEO's be very clearly written down and all their promises be very clearly written down and they be held accountable, and that over a period of time if they have an abuse of power where these companies start telling their customers what to do because they are so big, I think appropriate action will have to be taken.

But I am the optimist. I think it could work. But I would hope to see a process where we have some touch points downstream so we do not have to listen to the promises of today and then have to listen to them downstream. Everyone knows that downstream if something happens we, NASA, may have to come forward and suggest a divestiture or two to get that power away. I am worried about raw power, and I would like to see some response by the industry to convince us that they are not going to push around their customers. I have, you would be shocked to know, seen this power play before.

Senator BOND. Mr. Goldin, since you are one of the major customers, we would be interested to see what kinds of test guidelines and parameters you might set on that. I hope you will share those with us.

Mr. GOLDIN. We would be happy to participate in that, and we will communicate with your staff our thoughts. But right now we would like to see it go through. We believe people do what they say

they are going to do, but there is an old expression, trust but verify.

Senator BOND. Thank you.

Senator Harkin.

X–33 PROGRAM

Senator HARKIN. Mr. Chairman, thank you. I just have a couple of short followups.

Mr. Goldin, you said that the X–33 program was not a Government program. You said the private sector is putting in 25 percent. Who is putting in the other 75 percent?

Mr. GOLDIN. My terminology was improper. Let me correct that. I am sorry. It is not a typical Government program.

UPGRADING EXPENDABLE LAUNCH VEHICLES

Senator HARKIN. Has NASA studied the option of upgrading its expendable launchers, including the development of a nonreusable craft for human space flight in case the X–33 does not prove cost effective?

Mr. GOLDIN. The answer is we now have executive direction that the Department of Defense is responsible for expendables and NASA is responsible for reusables. The Department of Defense right now is developing a program called the EELV, the evolved expendable launch vehicle, which is trying to take the expendables to the highest possible reliability and the lowest possible cost. It is my belief, being in the industry for 35 years, that if we are ever to have routine presence in space, sustained presence in space, the expendables are not the answer. It will have to be reusables, and let me explain to you why.

If you take a look at an expendable rocket, 2 percent of the total rocket mass goes into orbit. So 98 percent is thrown away. Of that about 10 to 15 percent is high-value-added machined and electronic hardware, and every time you launch you throw it away. Given the kind of technology we have, I do not see that there is a way with an expendable to ever change that payload mass fraction. Maybe they will go up to 3 percent, but they will never go higher than that. With reusable vehicles you keep using that over and over again. This is what an airplane is.

The other problem with expendables is they have multiple stages. First the first stage and the second stage and the third stage and the fourth stage, like on Apollo. We are attempting to build a vehicle—which is a real stretch—that is just like a plane. You do not have multiple stages. The technology drives it, and as a result, you do not have to have all that integration going on. In fact, there were some thoughts early in the aviation business when we had jet aircraft that maybe we would refuel them in mid flight. That would be a two-stage system. That does not make sense from a reliability standpoint or a cost standpoint.

We take on some very tough tasks, and it is our position at NASA that ultimately within 10–15 years we will develop the technology for reusables that will make expendables obsolete.

COST EFFECTIVENESS OF X–33

Senator HARKIN. Well, again, it is all good theory, but I am just wondering what happens if the X–33 does not prove cost effective. And I am not going to get into that debate, I just wonder. You say that DOD is responsible for expendables, NASA is responsible for reusable. This is reusable. If it does not prove cost effective, just throw up your hands?

Mr. GOLDIN. No; oh, we have a broader program.

Senator HARKIN. Or are you going to make it prove cost effective regardless.

Mr. GOLDIN. No; let me explain the broader program. The X–33 is but one element of a very broad-ranging program we have on reusables. The program has something called the X–34. That is a vehicle that is a two-stage vehicle that goes up to Mach 8. The X–33 is an experimental vehicle. It is not a production vehicle, it is not a program where we even know it is going to end. We are just doing experimental flights like the X–1 up through the X–15. These are experimental vehicles.

This is a program that has a 10-year goal and a 20-year goal, and it is not a single program, but it is the sum of many programs. So we have the X–34 which flies a year from now. We have the X–33 which will fly a little less than 2 years from now. And parallel with that we have the HYPER–X Program, which is a series of small vehicles which will fly between Mach 5 and Mach 10 with the pilot sitting on the ground. We have a program called RBCC, rocket booster combined cycle, which begins to feed in oxygen as a portion of the fuel from the atmosphere so we can get the payload mass fraction up to perhaps 5 or 10, and all these programs are going to be undertaken in the next few years.

We have another program called the BANTAM lifter, which is a reusable small launch vehicle. We are going to evaluate these technologies every few years, we will look for which of the ones that are progressing, which are the ones that are not progressing, and constantly drive toward this goal of $1,000 a pound which we set for 10 years from now.

So this is not a one-shot, and we were very clear on the X–33. It may succeed or it may fail. But the problem we have had at NASA in the past was we would take these major programs that became organic, like the shuttle, and it was the shuttle or nothing, now what we are saying is we want a broad diversity of things going on, and instead of multibillion dollar programs, we are doing programs that range between $30 million for this HYPER–X up to $900 million for the X–33, under $100 million for the X–34, so we are breaking it into small chunks, different industrial teams, loads of competition, a tremendous amount of intensity, but for the first time in 25 years we have five different new rockets under development in this country, with a much smaller budget than we ever did before.

So that is my point. The X–33, I hope it makes it. If it does make it, we are saying to the contractor at some point in time you pay for the development and then we will just be a customer. But we are out of the business, at least right now, of having the Government pay the full development costs, and we are trying to amortize

the development costs against the commercial sector so the Government is only a participant. So that is the concept we have, and maybe I did not explain it correctly.

Senator HARKIN. Thank you very much.

Thank you, Mr. Chairman.

## ADDITIONAL COMMITTEE QUESTIONS

Senator BOND. Thank you, Senator Harkin.

As I indicated, we will keep the record open for further questions from members of the committee and further answers. As I said, I am sure you want to expand on some of those answers.

[The following questions were not asked at the hearing, but were submitted to the Administration for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR BOND

### MANAGEMENT AND AGENCY-WIDE

*Question*. In 1996 NASA abolished the Office of Space Access and Technology (OSAT), redistributing responsibility for technology development to other program offices. Coordination of these efforts is being undertaken by NASA's Chief Technologist in the Administrator's office. How will advanced technology development be undertaken within the agency's offices? How will the Chief Technologist coordinate NASA-wide technology development efforts? What are your plans for the creation of a Technology Institute and what role would this institute have in NASA's technology efforts?

Answer. First, when OSAT was dissolved, the specific technology programs supported by that office were not dissolved. OSAT responsibilities were reassigned to other offices along with budget and personnel. Specifically, cross-cutting spacecraft technology, formerly within the Spacecraft Systems Division of OSAT, was assigned to the Office of Space Science which now has responsibility for basic spacecraft technology in support of multiple program offices. The Space Transportation Division, responsible for advanced launch and in-space propulsion technology (including the reusable launch vehicle programs), was transferred intact to the Office of Aeronautics, which has been renamed the Office of Aeronautics and Space Transportation Technology (OASTT). Similarly, the commercial technology programs were transferred intact to OASTT. The Space Processing Division, which supports activities in areas such as materials processing and biotechnologies was transferred to the Office of Life and Microgravity Sciences and Applications.

In addition, each NASA program office will support specific technology programs to support their missions. The Office of Space Science, for example, is initiating major new technology programs to support its Origins Program (e.g., the Next Generation Space Telescope and space interferometers that will eventually directly detect planets—potentially earthlike—around other nearby stars) and deep space planetary program (e.g., Mars exploration). The Offices of Mission to Planet Earth and Human Exploration and Development of Space are similarly developing plans for robust new technology programs.

The key instrument for technology coordination is the Technology Leadership Council (TLC) which was established along with the Office of the Chief Technologist at the end of fiscal year 1996. The Chief Technologist will chair the Technology Leadership Council. This council will include program office leaders, key HQ officials and center directors. The TLC is chartered to advise the Administrator on technology through the Chief Technologist, formulate Agency-level technology policy and investment strategy, coordinate the technology program within NASA, and address any and all issues related to the NASA technology program. The Office of the Chief Technologist will also lead and be responsible for the process that will be used to develop the NASA Integrated Technology Plan.

The institute NASA is in the process of establishing is for advanced concepts, not technology in general. The role of the institute is to provide the Agency with an independent source of advanced concepts that can have a significant impact on future missions. NASA strongly believes that a robust program in advanced concepts is essential for the long-term future of the Agency. The institute will be established, competitively, at a host institution and will have independent authority to solicit, fund and evaluate advanced concepts across all NASA mission areas. The institute

will be "virtual" in the sense that it will not have a permanent technical staff, except for a director. The director will be responsible for developing solicitations and overseeing the evaluation process. The other "members" of the institute will be the investigators selected for award. NASA's role will be to assist the director in developing solicitations consistent with the Agency's long term goals and to assure that institute awards are similarly supportive of the Agency's overall mission and strategic goals. This activity will augment individual advanced concepts activities conducted within each program office. By complimenting the internal activities with an independent external advanced concept activity, NASA will significantly broaden the range of concepts that can help the Agency do its job more effectively and at lower cost.

*Question.* NASA and the Air Force recently announced their intention to coordinate efforts in several areas. What are the plans for agency coordination? What areas are being addressed in the coordination study? What impact might these efforts have on NASA's budget?

Answer. NASA and Air Force Space Command cooperative efforts are outlined in the accompany press release.

Any budget impacts will be dependent on the implementation of recommendations which have not yet been formulated. It is premature to speculate what impacts might ultimately result.

*Question.* In 1997, NASA must begin complying with provisions of the Government Performance and Results Act (GPRA). What progress are you making in developing your strategic plan that must be submitted to Congress by the end of September of this year? What roadblocks or difficulties are you encountering in efforts to comply with the act? What metrics will be used given the research nature of the agency?

Answer. NASA's efforts to develop a strategic plan and performance measurement system predate the passage of the Government Performance and Results Act (GPRA), as well as the National Performance Review. NASA initiated a new Strategic Management System in 1992. Previous attempts at planning did not align with budget reality or with national policy priorities, and did not present a unified vision and direction for NASA. NASA issued the first Strategic Plan developed under the new system in 1994. The Plan has been updated in 1995, 1996, and the 1997 edition is now undergoing the congressional consultation process.

The NASA Strategic Plan articulates the vision, mission, goals and values for the Agency and lays out a roadmap for the next 25 years. The Plan describes what we do, identifies our customers, and articulates where we are going and why. Most importantly, it provides a common basis for the Administration, Congress, and NASA's management to make decisions regarding the implementation of our programs and the deployment of the resources needed to turn the Plan into reality. The Plan describes four Strategic Enterprises as our core businesses that include: Mission to Planet Earth, Space Science, Aeronautics and Space Transportation Technology, and the Human Exploration and Development of Space. The Plan also defines four crosscutting processes that are essential to perform our mission. Specific goals are identified for each Enterprise and the roles and responsibilities for each field installation as a Center of Excellence or Center Mission are defined. The NASA Senior Management Council approved the Strategic Plan that covers the period beginning with fiscal year 1998 and will be submitted with the fiscal year 1999 budget request. We are encountering no roadblocks to comply with GPRA.

The metrics to measure the success of our programs will be contained in a separate Performance Plan. Performance indicators will be offered for NASA's four Strategic Enterprises and for the four Crosscutting Processes. To develop the performance measures, NASA initiated an internal pilot project in 1994 to assess program outputs, outcomes, and operational efficiencies. The assessment of our crosscutting processes measures outcomes associated with answering our fundamental questions of research. NASA has cooperated with other research and development agencies to identify metrics that take into account the long term nature of realizing specific results from the nation's investment in research, while accommodating the intent of GPRA to ensure efficient short term success indicators. Two pilot Performance Plans have been completed to date and have been discussed with our advisory committees and external stakeholders. The first official Performance Report will be submitted this fall with the fiscal year 1999 budget request.

NASA's Strategic Management System has been recognized as a model of excellence by OMB. A case study video tape documenting the NASA process was developed and distributed by the Office of Personnel Management and distributed to all government agencies and to Federal education and training centers.

*Question.* Through the years NASA has built an extensive physical infrastructure at its centers located throughout the nation. During times of budget constraints, the

physical plant of agencies is often neglected. Does the agency have a plan to maintain the capability of its physical plant? How much is requested in fiscal year 1998 for such efforts?

Answer. NASA just completed a Facility Investment Study that tied plant condition and performance with mission criticality from a risk management perspective. We know where we need to make investments and will sort that out in the upcoming budget builds.

The fiscal year 1998 budget request contains approximately $172 million for infrastructure investment including liquidating environmental liabilities associated with the plant.

*Question.* What is the status of the 1995 Zero Base Review? Will you be able to achieve the savings initially projected in the review? Are all the consolidations and changes recommended in the review complete? If not, what remains to be completed? Are there any plans to undertake an evaluation of your efforts?

Answer. Since NASA's implementation of the recommendations resulting from the Zero Base Review (ZBR), significant progress has been made in changing the way the agency conducts business, and reducing its size and infrastructure in concert with its future budget projections. NASA is achieving the savings projected in the Zero Base Review. The budget runout for fiscal year 1997–2000 included in the fiscal year 1998 budget request is nearly identical to the budget runout included in the Zero Base Review.

The following are examples of specific actions underway to implement the ZBR recommendations:

—On October 1, 1996, NASA awarded a contract to operate the Space Shuttle program to U.S. Alliance, a significant departure from years of direct government management and control.

—Program management responsibilities have been transferred to Lead Centers from NASA Headquarters, and Centers of Excellence have been established for each NASA Center for more effective and efficient decision-making.

—The fiscal year 1999 budget will implement full cost budget, management and accounting principles which will further the objective of more efficiently managing the public's fund based on sound business principles.

—Through two successful buyouts, attrition and aggressive restrictions on hiring the agency FTE workforce is 19,763 in mid-fiscal year 1997. This is 1,175 FTE below the post-fiscal year 1996 level. The fiscal year 2000 target has been increased 491 to 17,979 after careful analysis of agency requirements for its programs, projects and skill mix, particularly in regard to the Space Shuttle. The fiscal year 2000 target of 17,979 is a reduction of over 3,500 FTE's (−16 percent) from the fiscal year 1996 ZBR baseline of 21,555 FTE.

—Through fiscal year 1996, buildings and facilities with a current replacement value of $1.5 billion have been closed. Other actions at NASA in support of the ZBR recommendations which are well underway are conversion to performance-based contracts, decommissioning of excess aircraft, and efforts to privatize communications services for NASA's low-Earth orbiting missions at JPL and remote sensing data acquisition at the Stennis Space Center. Procurement activities are underway which will establish the National Space Biomedical Research Institute in Houston, TX in June 1997.

In short, NASA is maintaining its stated goals of implementing the ZBR recommendations within the timeframe established. Evaluation of our progress in this implementation process is ongoing. No major programs have been terminated. In fact, several significant, new programs have been initiated in this timeframe which maintain the agency's leadership in science and technology into the next century.

*Question.* Last year this Subcommittee provided NASA the authority to conduct employee buyouts to help with downsizing efforts. How well is the buyout effort proceeding and is there other legislation that the Congress should be considering to help avoid a RIF situation?

Answer. With the passage of legislation granting NASA buyout authority through fiscal year 2000, the agency once again possesses a valuable tool to aid in downsizing and restructuring without the adverse impact of involuntary separations and downgrades. Thus far, most of the NASA centers have conducted their first round of targeted buyouts, aimed at job categories where reductions need to take place. As the fiscal year heads to a close, over 850 NASA employees have separated with buyout under this authority. With careful management, tailoring the use of buyouts to each center's specific downsizing needs, we have significantly enhanced our voluntary attrition rate, while avoiding major skills imbalances and program disruptions which can result from reduction in force.

With continued availability of buyout and early retirement authorities for the balance of our downsizing cycle, agency managers anticipate achieving target staffing

levels without the need for additional legislation. NASA appreciates your continued interest and support during the restructuring process.

SPACE STATION

*Question.* What were the results of the Russian General Designers Meeting on April 24? Did that meeting give you any confidence that the Russians are now willing to meet their commitments on the International Space Station (ISS) program? If yes, why?

Answer. The Service Module General Designer's Review, held on April 24, 1997, with RSA, RSC-Energia, Krunichev and all major subcontractors (over 40 companies) reconfirmed that there were no significant technical impediments to completion of the Service Module in support of a December 1998 launch. NASA senior managers were in attendance during this open and candid review which focused on technical issues. Schedule milestones were reviewed in detail and all Russian parties stated that the current Service Module schedule for a December 1998 launch is feasible. They then committed to the schedule execution necessary to hold this launch. As a result of the GDR, we now have a signed overall Service Module schedule and detailed delivery schedules for the subcontractors.

At the Space Station Control Board held May 14, 1997, in conjunction with all our international partners, we officially baselined a new assembly sequence which places the Service Module launch in December 1998. This decision reflected a renewed confidence by all the international partners that Russia will deliver its commitments on schedule based on events that have taken place in Russia over the last few months, such as the fiscal year 1997 funding for the SM being available. While not completely eliminated, the risk to its delivery schedule has been sufficiently lowered. There were many factors that the U.S. and the other partners considered in making this decision, but, it was ultimately based on a visible and concrete demonstration by Russia of their resolve.

*Question.* What return on investment have American taxpayers reaped from having U.S. astronauts aboard Mir for more than a year? What will be the return from the additional flights planned through 1998? Precisely what are the scientific experiments the astronauts are conducting?

Answer. The returns on the investment for having U.S. astronauts live and work aboard Mir derive from pursuing the basic objective of the Shuttle-Mir/Phase I program: namely, to capitalize on existing U.S. and Russian space assets and know-how in the interest of the U.S., both today and in future years. The benefits to us of the joint Shuttle/Mir activities are accruing through three thrusts: (a) learning to work with the Russians (and having the Russians learn to work with us); (b) reducing the programmatic, technological, and assembly/operations procedures risks on the International Space Station (ISS) program; and (c) utilizing the space station Mir for conducting early science research requiring longer durations than provided by Shuttle missions. By exercising crew exchanges, science research, hardware delivery, on-board repairs and servicing, and operational test and verification, we have in all of these categories already gained much more from our collaboration with Russia than many experts expected at the outset.

The early scientific experiments conducted by U.S. astronauts fall in two major areas: Risk Mitigation Experiments (RME) and Mission Science. The latter recognizes such areas as Fundamental Biology (FB), Human Life Sciences (HLS), Space Medicine Program (SMP), Microgravity Sciences (MG), and Space Science (SS).

Specific experiment programs in these disciplines include:

RME.—Mir Environmental Measurements (e.g., electric field); Structural Dynamics Investigations; Dynamic Loads Measurements; Cosmic Radiation Monitoring; Radiation Shielding Research; Volatile Organics Measurements; Micrometeoroid/Debris Survey; ESA Proximity Sensor Verification; Docking Evaluations; EVA Operations; Onboard Water Experiments/Testing; and Hardware Verification Tests (e.g., treadmill, personal computer system).

FB.—Insect Circadian Rhythms; Environmental Radiation Measurements; Dosimetry Tests; Greenhouse/Plant Growth Experiments; and Incubator Experiments.

HLS.—Bone Mineral Loss Investigations; Humoral Immune Function Investigations; Renal Stone Risk Assessment; Human Autonomic Investigations; Sensory-Motor Transforms Determination; Sleep Investigations; and Magneto-resonant Imaging (MRI).

SMP.—Toxicological Assessments; Archival Water Sample Analyses; Crew Microbiological Assessments; Mir Microbiological Measurements; Metabolic Investigations (blood, urine, saliva, glands, centrifuge); Cardiovascular Investigations (skin & core temperatures, blood pressure, cardiovascular monitoring, physical fitness); and Orthostatic Function Studies.

MG.—Space Acceleration Measurement System (SAMS); Colloidal Gelatin Experiments; Microgravity Glovebox; Dialysis Crystallization Experiments; Liquid Metal Diffusion Experiments; Flame Investigations; and Biotechnology Systems Development.

SS.—Particle Impacts Measurements; and Mir Samples Assay, etc.

*Question*. Much attention has been focused on the problems with Russian involvement in the space station program. However, the U.S. prime station contractor, Boeing, also has encountered problems resulting in cost increases and schedule delays. What is the current status of Boeing's efforts? Are you satisfied with the prime contractor's performance to date? What actions are being taken to deal with the problems?

Answer. Boeing continues to make substantial progress on the development of the hardware. The FGB and Node 1 were on track for launch in late 1997, and now, due to the Service Module (SM) delay, they are scheduled for launch in mid-to-late 1998. The U.S. elements through 7A are completing design and fabrication, with qualification testing and flight integration activities well underway. The program has passed the 59 percent completion mark in major milestones. Of the U.S. flight hardware to be produced, over 184,000 pounds of the total 720,000 pounds have been built.

As is expected with an undertaking of this complexity and magnitude, problems have been encountered by Boeing, as the program reaches the point of peak development activity. Boeing is addressing the technical problems that have been identified to date and continues to work very hard to solve the myriad of technical and programmatic challenges that are encountered as the program moves through the qualification testing and production phase of the development cycle. Resolution of the technical problems, however, is achieved at a cost in both schedule and cost performance.

Boeing's schedule variance is currently approximately 3.3 percent ($132M) through March 1997. This continuing schedule variance indicates the Prime contractor is approximately 5 weeks behind plan. Although the schedule variance has continued to worsen over recent months, we expect to see slight improvements in schedule performance over the next 6 months as hardware and software qualification milestones are completed. Schedule recovery plans are in place at the Product Groups and at the Tier II subcontractors. The overall cost and schedule variances are reported monthly at the Program Manager's Review. The near-term schedule problems on flights FEL through 7A are statused to management on a regular basis.

Boeing's cost variance is currently 7 percent ($291M) through March 1997. Boeing's cost projections indicate that this variance will continue to grow over the remainder of the year. While this trend is of concern to NASA and Boeing, it is important to recognize that the program is now in a critical phase where a considerable amount of hardware is being assembled and tested, and software is being developed, integrated and checked out. During this timeframe, the potential for unforeseen challenges to our cost and schedule targets will remain high. The program had adequate reserves built into the total development estimates to address these anticipated challenges. However, Russian schedule uncertainties have required us to develop and maintain contingency capabilities that has diverted a portion of those resources at a time when they are critical for continued program development. For that reason, NASA has reallocated $200 million to support the contingency requirements, and enable the use of program reserves as originally intended.

NASA and Boeing are also developing and implementing as rapidly as possible a workforce destaffing plan that aggressively removes Tier One and Two contractors from the work force as soon as hardware and software development efforts are completed. Staffing projections for the remainder of the year show substantial reductions in workforce levels. NASA is also restricting change orders to the contract to only those that are absolutely essential to the successful operation of the Station. All changes currently in process are being carefully reviewed to minimize near-term costs. Additionally, NASA has a very rigorous award fee process in place that requires the contractor to meet acceptable cost and schedule performance standards in order to earn award fees on the contract. Failure to meet those standards could result in a substantial loss of revenue to the contractor, and is expected to incentivize excellent contractor performance.

*Question*. Why has the estimated number of spacewalks for the Space Station during the assembly period tripled (from 434 hours to 1,519.5)? Do you expect the number to continue growing?

Answer. The International Space Station is a large and complex project which is assembled over several years and numerous flights. The assembly requires a large number of EVA's; however, the total number of EVA's or EVA hours is not a particularly useful tool in evaluating the level of risk to ISS assembly. During the two

Hubble Space Telescope repair missions, NASA demonstrated the ability to accomplish complex missions with multiple complex EVA's. The two most important issues in assessing the risk of the assembly EVA's is the EVA margin available to the program and the level of complexity of the EVA tasks. Experience has shown that as we transition from a hardware development phase of the program into crew training the EVA timelines become better defined as task/design details emerge and other operational details are integrated into the timelines. In some cases we expect the timelines to grow because of this but in other cases the timelines will decrease as the EVA crew members become more proficient with their tasks and/or design details emerge where only assumptions about the EVA task were previously made.

The 434 crew hours basically indicates an older estimate which only included the hours for U.S. assembly of the ISS. The 434 hours does not include: U.S. Assembly crew hour growth from 434 to the current number of 905.2; U.S. external maintenance during assembly (currently at 200 crew hours); Russian assembly crew hours (currently at 270 hours); and Russian crew hours required for external maintenance (currently at 144 crew hours).

The following table indicates the U.S. crew hours increase and the Russian crew hours decrease from March 1996 to the current numbers (April 1997).

| | Crew hours | | | | Total |
|---|---|---|---|---|---|
| | U.S. assy. | U.S. maint. | RSA assy. | RSA maint. | |
| June 1995 | 434.0 | ..... | ..... | ..... | 434.0 |
| March 1996 | 707.4 | 122 | 420 | 240 | 1,489.4 |
| September 1996 | 808.2 | 126 | 324 | 144 | 1402.2 |
| October 1996 | 810.6 | 162 | 324 | 144 | 1,441.6 |
| January 1997 | 910.5 | 162 | 270 | 144 | 1,487.5 |
| Current (April 1997) | 905.2 | 200 | 270 | 144 | 1,519.2 |

Examples of activities leading to U.S. EVA hour growth from March 1996 to the current numbers (April 1997) are provided below.

—Better definition of timeline and design maturity on Flight 7A (Airlock assembly tasks) and other flights (+25.3 hr.)

—Added EVA to install Power/Data Grapple Fixture and cables on the FGB to complete on-orbit software modifications. (+12 hr.)

—Battery move from P6 Truss to P4 without the previously planned Special Purpose Dexterous Manipulator (SPDM) (+35.0 hr.)

—Manual relocation of the Battery Charge/Discharge Unit & Grapple Fixture resulting from SPDM deferral as an assembly aid (+35.3 hr.)

—Additional EVA is required to remove Multi-Layer Insulation from the JEM External Facility instrument (+12.0 hr.)

—Miscellaneous growth and timeline maturity (+12.0)

The U.S. growth in external maintenance activities using EVA has occurred for the following reasons:

—Increases in the on-orbit spares, i.e., MDM's, RPCM's, etc.

—Changes in the current assembly sequence baseline.

—Better defined equipment and upmass allowances (Preventive maintenance is just recently being addressed in the ISS Program).

—Decision to defer SPDM by 7 months resulted in an increase of 40 EVA hours for external maintenance.

The reduction in Russian EVA assembly hours has occurred for the following reason:

—The Science Power Platform (SPP) is now more fully integrated on the ground, therefore, reducing the amount for SPP assembly EVA's.

—Service module (SM) solar array augmentation was eliminated as a requirement.

The reduction in Russian external maintenance using EVA has occurred for the following reason:

—increased understanding of the Russian method of estimating maintenance requirements. The earlier values included IVA tasks as well as EVA tasks.

The current estimate of EVA hours required for ISS assembly while large, represents a group of EVA's which are within NASA's experience base and which are doable given the training planned and the margin present. The estimate will continue to change as the assembly sequence continues to mature, but appropriate margins will continue to be maintained.

SPACE SHUTTLE

*Question*. When will you have a new assembly sequence for the Space Station? Do you still estimate that approximately 30 U.S. Space Shuttle launches will be required?

Answer. The International Space Station Control Board (SSCB) approved a Rev. C assembly sequence on May 14, 1997. This updated assembly sequence reflects a delay in the Russian provided Service Module from April 1998 to December 1998.

NASA's estimate of the number of Space Shuttle flights required for assembly is 34, which includes one launch for ESA's Columbus Orbital Facility (COF) and portions of four launches for Japan's Experiment Module (JEM).

*Question*. Within the past year the shuttle program has encountered such problems, a stuck orbiter hatch, the discovery of un-insulated water pipes, unexpected scorching of the solid rocket motors, and the early return of a shuttle mission due to problems with a fuel cell. Are these indications of a problem in the shuttle program given the extensive changes that have been taking place by going to a single prime contractor? How has United Space Alliance been performing since the initiation of its contract?

Answer. Such anomalies have occurred throughout the space program and will likely continue in spite of the most prudent and reasonable precautions taken by NASA and its contractors. While certainly not an excuse, the water pipes that were found to lack insulation have been in that condition for many years—long before the advent of USA. In fact, USA discovered the condition. Regarding the solid rocket motors, they are the responsibility of Thiokol Corp. which is not a part of the USA contract. The fuel cells and hatch are products of sub-contractors that are checked for proper function, configuration, and integration by USA prior to launch. The Shuttle team, both contractor and government workers, work very hard to eliminate the occurrence of such problems. Performance of USA is tracked by a number of metrics including problem reports, mishaps, in-flight anomalies, cost rate, overtime, and waivers—all of which indicate a trend of good and improving performance by USA since initiation of its contract. The Aerospace Safety Advisory Panel recently reviewed the transition of operations to USA and confirmed that Shuttle safety has not been compromised and that the transition is going well.

*Question*. What are your plans for Shuttle upgrades? Does it make sense to pursue extensive space shuttle upgrades if the shuttle is going to be phased out by 2012? With the potential to privatize the shuttle, should not the current prime contractor United Space Alliance be involved in funding shuttle upgrades? What might you have to do to keep the shuttle flying well into the next century if an operational RLV does not come into existence as currently envisioned?

Answer. We plan to continue to fund and implement those upgrades that are required to fly the Shuttle safely until it is replaced by a more capable, efficient vehicle. The decision to phase out the Shuttle by 2012 and replace it with an operational RLV has not yet been made and until that is decided, maintaining the option of operating the Shuttle to 2020 or beyond is the prudent course, therefore, we plan to continue to study those upgrades which would take the Shuttle significantly beyond 2012. To continue to fly the Shuttle to 2020, significant upgrades will be needed to the Shuttle system to increase safety margins, mitigate obsolescence, reduce processing time, and reduce operations costs. Work has already begun to define, demonstrate and, where it makes sense, to implement component upgrades to the Shuttle system. Examples of upgrades needed to continue use of the Shuttle to 2020 include modernized avionics, computers, and displays/controls; more efficient and robust fuel cells; engines and auxiliary power units that burn less toxic fuel; and engine components and thermal protection tiles that require less maintenance. Certainly, the role of the operations contractor and the specifics of its involvement in Shuttle upgrades are questions that must be addressed in the near future. Keeping the Shuttle as safe as can be is NASA's number one priority, no matter how much longer it remains in service.

*Question*. What are the savings from consolidation of space shuttle contracts? Are these savings already included in NASA's outyear budget estimates?

Answer. The Shuttle program anticipates savings of $360M through fiscal year 2000 from its overall restructuring efforts. The $360M was the remaining amount of unresolved reductions as submitted in the fiscal year 1997 request. The total amount of budget savings that the program achieved was over $1B through fiscal year 2000 from the fiscal year 1996 request. Of the remaining $360M, $250M of that is to be achieved by the Space Flight Operations Contract. The $360M of savings were included in the fiscal year 1997 budget request to Congress and has been reflected in our fiscal year 1998 request.

*Question*. What is the current status of DOD use of the space Shuttle? Are there any plans in the future to fly a dedicated DOD mission? Has DOD approached NASA with potential future missions that could be flown on the shuttle?

Answer. Currently there are a number of secondary DOD payloads scheduled to fly on the Shuttle throughout the manifest and the Shuttle Radar Topography Mission (SRTM) primary payload is scheduled to fly in fiscal year 1999. Also, we are working very closely with the DOD on several additional primary payload flight opportunities, which may include some of the remaining Defense Support Program (DSP) satellites.

*Question*. Some recent shuttle flights have had scorching on the solid rocket motor nozzles to an extent that has not occurred previously. What is the status of investigation into this anomaly? Can the agency continue to fly the shuttle safely without full resolution of this problem?

Answer. Scorching or pocket erosion was observed post-flight and determined to have occurred on both the STS–79 (Sept. 1996) and STS–80 (Nov. 1996) Solid Rocket Motor nozzles. The investigation will be on-going until a cause and corrective action is determined. The phenomenon, however, is understood well enough and the existing margins of safety provide sufficient rationale to allow safe continuation of Shuttle flights.

*Question*. What metrics are being used or being developed to measure the impact of downsizing on the safety of the space shuttle? Additionally what metrics are being used to measure the impact on the shuttle safety of transition shuttle operation to the single prime contractor United Space Alliance? Is the agency satisfied that the changes are not having a negative impact? Are there specific areas of concern?

Answer. The SFOC contract has several metrics which monitor the transition. So far, we are satisfied with the transition progress and do not see any negative impacts. We are constantly monitoring and communicating changes to our managers and workforce to ease this transition period. One area of concern for both civil servants and our contractors is in the area of software development and engineering. With the expansion of the Internet and other computer applications, it is difficult to compete with other industries to retain our best and brightest in this critical area.

REUSABLE LAUNCH VEHICLE

*Question*. How significant is the weight growth and reduction in mach number in the X–33 program? Do you believe the program can still demonstrate by the turn of the century whether or not this is a viable option for replacing the space shuttle?

Answer. Weight growth in a vehicle of this type, at this stage of its detailed design work, is not unexpected. A special weights tiger team has been established to assess where vehicle weight reductions could be achieved and has to date identified in excess of 10,000 pounds of candidate weight reductions. Additionally, the potential to achieve higher Mach numbers through optimizing flight trajectories and applying other technologies (e.g. densified propellants) are being assessed. The goal of Mach 15 is still achievable through these various efforts; however, falling short of that goal is not a serious problem. The stated goal of Mach 15 was established prior to configuration downselect as a conservative target to achieve "real gas effects" on aerodynamics and aerothermodynamics for multiple vehicle shapes. We are currently evaluating velocity requirements from an engineering standpoint for this specific X–33 aerodynamic shape, and we believe that the real requirements will be satisfied whether or not Mach 15 is reached. We are confident that the goal of the X–33 program, to prove that the concept of an operational reusable, single-stage-to-orbit launch system is viable, will be accomplished by the turn of the century.

*Question*. What is NASA's relationship with the Air Force in the Reusable Launch Vehicle program, particularly the X–33? Is the Air Force bringing its own funds to bear for work on the project? Does the Air Force have any role in the X–33 test flights?

Answer. NASA and the Air Force are cooperating in the various reusable launch vehicle programs. Specifically in the X–33 program, Air Force personnel participated in the source selection process. Lockheed Martin Skunk Works currently has X–33 task agreements in place through which the Air Force laboratories are supporting development of the X–33 in areas where they have particular expertise. X–33 will be launched from Edwards Air Force Base (EAFB), and EAFB personnel are significantly involved in the range safety assessments. Air Force bases have been identified as candidate X–33 landing sites. The Air Force views the X–33 program as a source for technology developments which they need for their own use; however, the X–33 program is not being funded by the Air Force.

Current plans are for the higher Mach number flights of the X–34 to be conducted in the Air Force's Eastern Test Range in Florida. Additionally, NASA and Air Force Space Command have established a partnership council to oversee expanded cooperation between the two organizations. Several joint teams have been established including one to develop an Integrated Space Transportation Plan which addresses a complimentary mix of Air Force EELV programs and NASA RLV programs and Air Force leveraging of NASA RLV technology for the military spaceplane development.

*Question.* Has NASA begun discussions with Lockheed Martin or other potential industry providers as to what the government role should be in the development of an operational reusable launch vehicle (RLV) if the X–33 program proves successful? Does the agency still assert that an operational RLV will be financed solely by the private sector? What role might the government take to facilitate private sector funding?

Answer. While the X–33 flight and ground test programs are progressing, NASA, industry, and investment advisors are assembling the business plan that will enable a commercial RLV. Such a business plan may or may not require government support. At this point, the industry team and their investment advisors have not finalized this business plan. Therefore, speculation on a set of specific government actions is premature. Our current schedule completes the first cycle of business planning, including any potential government support, before the end of 1997. Whether or not government funding may be required and at what level, if any, will be identified through these efforts.

*Question.* NASA recently added a second test flight vehicle to the X–34 program. Are there plans for a second flight-test vehicle in the X–33 program? What contingencies are in place in case of a flight failure that damages or destroys the X–33 vehicle?

Answer. We do not plan a second X–33 flight-test vehicle. If a vehicle is damaged or destroyed, an assessment would be made at that time on how to proceed. Much of what we will learn from X–33 will already have occurred in building the vehicle, integrating the candidate advanced technologies, and processing and testing the vehicle on the ground. Depending on when in the program such a hypothetical loss might occur, many of the flight demonstration goals might have already been achieved. This approach involves risks, but we chose this path by weighing the additional risks versus the additional costs of a second vehicle.

*Question.* The trade press has reported that Marshall Space Flight Center is promoting a flight demonstrator, known as X–37, to be a follow-on to the X–33 program. Is NASA planning a successor experimental flight demonstrator to the X–33?

Answer. In keeping with the National Policy direction to balance investment between existing space transportation systems and development of future capabilities. NASA's Aeronautics and Space Transportation Technology Enterprise has begun initial planning for a continuing program of investment in space access technology development and flight demonstration. There is potential for a future flight demonstration vehicle, although no decision has been made regarding the type and configuration of the vehicle, or the technologies to be demonstrated.

The continuing space transportation development and demonstration program is aimed at meeting access-to-space requirements beyond the scope of the current X–33 program, and at continuing to reduce the cost of all areas of space transportation over time, whether or not the X–33 leads to a commercial RLV. Experimental flight vehicles are a critical part of the program, and they will be used when a near- or mid-term (1–7 years) operational or development decision requires the use of X–33, X–34 and DC–XA demonstrators. The flight demonstration program would coordinate with, and draw advanced technologies from, programs such as the Advanced Space Transportation Program (ASTP) and the Aeronautics core. The technologies demonstrated would be aimed at meeting the full gamut of commercial, international and government needs for space access (e.g., Earth-to-orbit, orbit transfer, or interplanetary transportation).

*Question.* As part of its NASA authorization bill, the House Science Committee has approved $300 million in fiscal year 1998 for a new experimental demonstration vehicle which is to be a "complementary follow-on" to the X–33. The X–33 program currently has only one experimental vehicle. A second X–33 is estimated to cost $330–360 million. Would you rather have additional funds to build a second X–33, or a new follow-on vehicle as the House Science Committee directed?

Answer. If funding were to be added to the RLV program, that additional fiscal year 1998 appropriation would be better spent on an evolved, or next-generation demonstrator that adds newer or back-up technologies, rather than on an identical duplicate of the X–33's current design. This follow-on vehicle would complement the

X–33 by incorporating technology advancements that have been made since the X–33 program was initiated and would take advantage of the lessons learned.

As compared to an "X–33B", however, a new demonstrator could offer significantly more advanced technologies, potentially including: ultra high temperature thermal protection, very high hypersonic lift/drag ratios, an integrated reusable upper stage, and very fast turnaround. Such a demonstrator offers potential for global two hour transportation, very low cost delivery to geostationary orbit, and fully reusable earth-moon transportation systems.

SPACE SCIENCE

*Question.* NASA has put forth the "Origins" program as the focus of its space science efforts, looking at the origins of galaxies and stars, the origin and evolution of planetary systems, and the existence of life. What is the Origins program and which projects comprise the effort? Are all future space science efforts part of the Origins program? Has the agency developed a roadmap and milestones to be met by each mission identified as part of the Origins effort?

Answer. NASA's Origins Program is directed towards answering among the most fundamental questions that we can ask: Where did galaxies, stars and planets come from? Are there worlds like the Earth around nearby stars? If so, are they habitable and is life as we know it present there? What is the origin of the universe?

The current and planned space science programs of NASA begin the next steps in the quest for origins and pose the scientific challenges needed for subsequent steps. Missions now underway and in planning, including the upgraded instrumentation for the Hubble Space Telescope, are the Space Infrared Telescope Facility, the Stratospheric Observatory for Infrared Astronomy, the Mars Surveyor series, and other planetary and space astronomy and physics projects. These missions will offer powerful tools for advancing NASA's Origins program.

At the same time, while the origins challenge provides a unifying core for the space science program, neighboring disciplines will address important problems of their own, and may unexpectedly contribute directly, as was the case for the recent analyses of Martian meteorites. These related activities span the broad panoply of laboratory, field, and theoretical research conducted by NASA. The fiscal year 1998 budget request captures a core Origins program consisting of:

—an increase for the Mars Surveyor program to allow for the launch of a Mars sample return mission in the middle of the next decade, and to increase the scientific robustness of the program;

—a new Exploration Technologies Development program, to enable bold, new, low-cost experiments on the surface of solar system bodies;

—an accelerated launch schedule (from September 2002 to December 2001) for the Space Infrared Telescope Facility (SIRTF) to enable more overlap with the Hubble Space Telescope and the Advanced X-ray Astrophysics Facility, and provide earlier Origins results;

—full development of the Keck II ground-based interferometer, to enable direct detection of planets around other neighboring stars by analyzing for signs of the tug of intermediate-mass planets;

—advanced technology funding for the Next Generation Space Telescope (NGST) to peer far out into space and far back into time to reveal the birth of galaxies and will peer into dusty stellar nurseries, allowing scientists to study the formation of stars and their families of planets;

—advanced technology funding for the Space Interferometer Mission (SIM) to search for the tiny wobbles of a star's motion in response to the tug of possible planets only a few times heavier than the Earth. SIM has been targeted as a Phase C/D new start in fiscal year 2001, with an anticipated launch in late fiscal year 2005;

—an increase in astrochemistry/astrobiology research and analysis, to support the multidisciplinary study of the origin and evolution of pre-biotic material, the origin and distribution of life, the adaptation of life to space, and studies of the earliest life, and life in extreme conditions on Earth.

NASA has developed a roadmap and milestones for the Origins program, which are currently being incorporated into the upcoming revision of the OSS Strategic Plan, to be released in the fall.

*Question.* The National Research Council recently recommended that NASA develop a plan for the safe return of samples from Mars. What are the agency's plans in the area given that there are plans for a Mars Sample Return launch in 2005?

Answer. At NASA's request, the Space Studies Board recently studied and published, "Mars Sample Return: Issues and Recommendations, 1997." NASA is now in the process of considering the following recommendation for a receiving facility:

—A research facility for receiving, containing, and processing should be established as soon as serious planning for a Mars sample return is underway: operational a minimum of 2 years before launch; with multi-disciplinary science staff for development and procedures; and with an advisory panel of scientists established for oversight responsibility.

The Planetary Protection Office initiated a study in 1996 which included considering:

—Quarantine and testing of the returned sample: suitability of current containment facilities for Mars sample return; and review Apollo and new methods for biohazard testing.

There will be a Mars Sample Quarantine Protocol Workshop at Ames Research Center, June 4–6, which will discuss containment practices and facilities.

—This issue will be addressed in our fiscal year 1999 budget request.

*Question.* Funding for near-Earth asteroid detection is currently $1.5 million annually. The House Science Committee recently recommended that the agency undertake a $3.4 million effort annually. Do you agree with the increase in funds for this effort?

Answer. NASA does not agree with the proposal to increase this effort to $3.4 million annually.

Total NASA funding for all NEO-related activities is approximately $1.2 million in fiscal year 1997. Comparable amounts will be available in fiscal year 1998, but the final funding level will be determined based on the peer-review findings and the availability of appropriated funds.

We estimate that it will take approximately 20 years to detect, catalog and characterize 90 percent of the NEO's larger than 1 kilometer in diameter with the current program of approximately $1.2 million per year.

Funding for the NEO program comes out of a small and very competitive budget for peer-reviewed science. Increasing funding for NEO's to $3.4 million would eliminate funding for a significant number of meritorious, peer-reviewed space science endeavors.

LIFE AND MICROGRAVITY SCIENCES

*Question.* The Bion program, which studies the biomedical effects of the space environment on animals using Russian biosatellites, came under severe criticism from animal rights activists and taxpayer groups. You recently announced that you have suspended NASA participation in the primate research aspect of Bion 12. Will you still be participating in the other non primate aspects of the Bion 12?

Answer. At this time NASA is studying options which exclude non-human primates for possible flight on Bion 12. Studies are currently underway in both the U.S. and Russia to determine ways of taking advantage of the investment to date by evaluating the possibility of flying non-primate payloads utilizing as much of the existing resources as possible.

*Question.* How much money remains unobligated for Bion 12?

Answer. In fiscal year 1998 and fiscal year 1999 approximately $6.1 million.

[In thousands of dollars]

| | Fiscal years | | Total |
|---|---|---|---|
| | 1998 | 1999 | |
| Principal investigators | 900 | 900 | 1,800 |
| Flight support | 1,793 | 701 | 2,494 |
| Contract | 1,780 | ..... | ..... |
| Total | 4,473 | 1,600 | 6,073 |

*Question.* What are your plans for use of this money?

Answer. The Principal Investigators for Bion 11 are planning to conduct supporting studies on the ground that will enable them to derive the maximum scientific benefit from the flight data already acquired from the flight on Bion 11. The Flight Support funds will be used to support other flight activities and to study options for flights of lower organisms (rodents, insects, cells, plants) on the Cosmos Biosatellite, as a potential replacement payload on Bion 12.

*Question.* Does NASA intend to continue using primates in other biomedical research efforts?

Answer. Yes. NASA plans to continue to use non-human primates where their use is appropriate and justified. This research will continue to be thoroughly peer reviewed and subjected to the highest standards of animal care and use.

MISSION TO PLANET EARTH

*Question*. It has been past practice that the agency estimates MTPE program costs only through fiscal year 2000. Since NASA's 5-year budget includes fiscal year 2001 and fiscal year 2002, the agency may be in a better position to estimate total program cost. What is the total life-cycle cost of the MTPE program? What is the total life-cycle cost of MTPE's major component, the Earth Observing System (EOS)?

Answer. Mission to Planet Earth is one of NASA's four basic enterprises. Enterprises, by their nature, are long term commitments to a research area or customer community. There is no life cycle cost, per se, for Mission to Planet Earth. There are life cycle costs for specific programs within Mission to Planet Earth. Short programs can estimate life cycle costs with reasonable accuracy. The longer the program, the greater the uncertainty in these estimates. Future advances in technology, evolution in basic science requirements as knowledge is gained, and changes in implementation strategy will directly impact the real life cycle costs. Recognizing this uncertainty, the Earth Observing System (EOS) program has maintained a total program cost estimate through fiscal year 2000 as a key measure of effectiveness. At inception the EOS program was to cost $17 billion through this period. The current estimate for the same period is $6.7 billion. Savings were achieved through technology infusion, streamlining requirements and increased international and interagency partnerships (i.e. National Polar Orbiting Environmental Satellite System (NPOESS) with reference to EOS–AM–2). In fiscal year 1996, Mission to Planet Earth made a major commitment to define and estimate the life cycle cost for EOS. Sufficient progress had been made in defining the program implementation in the near term that future estimates could begin to be made. The total costs were estimated through fiscal year 2022, consistent with the stated objective of providing a 15 year data set of key measurements necessary to understand climate change.

In June 1995, the General Accounting Office (GAO) issued the results of their study of long-term EOS costs. Basing their estimate on a assumption that NASA would simply fly copies of the 1st phase EOS instruments and spacecraft during the 2nd and 3rd phases, the GAO predicted that the total long term cost of EOS (including operations) would be approximately $33 billion. Cognizant of the problem with their assumption, the GAO report acknowledged that NASA was actively studying how the program could be evolved at a lower cost and posed some of the challenges that NASA would face in achieving such savings. NASA noted that the estimate did not reflect the likely actual cost of the program, given agency intentions to incorporate new technology and partnerships. Recognizing the potential to reduce the cost of second series missions relative to the first, Mission to Planet Earth initiated an aggressive technology infusion program. Funds were carved out of the near term program to initiate an integrated technology strategy that included a focused program for new instruments (instrument incubator) and flight demonstrations (New Millennium). In addition, efforts were expended to transition, when possible, Mission to Planet Earth science measurements to existing operational capabilities. As a result, the second and third series estimated costs, through fiscal year 2022, were reduced 30 percent. NASA estimated that the life-cycle cost of EOS would be $25.3 billion based on our new approach to implementing the follow-on series. Additionally, the EOS component of the Mission to Planet Earth program has been "capped" at approximately $1 billion per year for the first decade of the 21st century. The ability of NASA to achieve these cost savings in the second and third generations systems for EOS is critically dependent upon maintaining a stable funding environment for the program between 1998 and 2002, so that the necessary new technology can be developed/demonstrated.

During the Biennial Review process, we are continuing to press our implementation strategy. We previously committed to re-compute the EOS instruments and investigators for the second series. Based on advice from our Earth Systems Science Advisory Committee, we are now moving toward revalidating the measurements on a recurring basis as scientific knowledge advances. This is driving increased pressure to shorten development time and to de-couple spacecraft development from aggressive instrument technology infusion. We have not finalized these results but they will clearly have an impact on future EOS life cycle cost estimates.

*Question*. What is the status of the LightSAR program? Is there funding available in the outyears to fund LightSAR? Does NASA expect to fund the program in the future?

Answer. NASA has committed $6,250,000 of the fiscal year 1997 allotted $12 million. NASA is funding four studies at $700 thousand each. Each of the four selected teams are making significant cost sharing efforts on the study, ranging from just over $100,000 to just under $1.5 million. In addition, NASA is also funding project work at the Jet Propulsion Lab (JPL), Stennis Space Center (SSC) and a science team. When completed, the studies will help us determine compatibility between science requirements and commercial requirements, and the level of investment industry is willing to make in a LightSAR-type mission, as well as potential teaming arrangements between the government and private industry through a better understanding of the potential commercial market for SAR data products and services. The Stennis Space Center will be managing the commercial applications support ($700 thousand) offered to each of the teams. Total funding for the studies, commercial applications support, and subsequent core technology development will not exceed the $12 million currently identified in MTPE's 1997 budget. The LightSAR studies will produce final reports for NASA in November 1997, for program review by year end. At that time, a schedule for further LightSAR activities will be developed.

Currently there is no plan to fund LightSAR in the outyears. LightSAR, would require approximately $150 million through fiscal year 2001, depending upon the configuration. A SAR was proposed for the Earth System Science Pathfinder (ESSP) solicitation, but was not selected as it exceeded the $90 million maximum cost allowed in that process. SAR data might qualify as a candidate for the MTPE Scientific Data Purchase, which was competitively announced on May 23, in which case these additional funds would be available.

Any additional funding for LightSAR beyond the $12 million already provided, and possibly the scientific data purchase will depend significantly on the outcome of the funded studies which will be completed in November of this year to determine if industry can absorb a larger share of the mission costs. Results of these studies will help define an appropriate implementation approach based upon affordability, scientific priority, and industry cost share.

*Question*. Landsat 7 is scheduled for launch in 1998. Is the program on schedule and within budget? Is the National Oceanic and Atmospheric Administration providing funding for Landsat 7 operations, or will NASA fully fund its operations?

Answer. NASA has committed to launch Landsat 7 by December 1998. It is presently planning a launch date set for May 29, 1998. The program is within its NASA budget guidelines of $387.4 million, projected total at completion.

NOAA is committed to operating the Landsat program. NOAA is sharing the cost for operations preparation and engineering support for fiscal year 1997 and fiscal year 1998 with NASA. NOAA has committed $1.2 million for fiscal year 1997 and plans $2.45 million for fiscal year 1998. NOAA expects revenues from access fees and data sales to cover the operations costs in fiscal year 1999 and beyond.

*Question*. What is NASA's role in the National Polar Orbiting Environmental Satellite System (NPOESS)? Are there plans to use NPOESS satellites for instrument deployment as part of EOS?

Answer. NPOESS is a tri-agency program among NOAA, DOD and NASA designed to converge the military and civilian operational weather satellite systems now run separately by NOAA and DOD. NASA's role is to provide technology leadership for the NPOESS program. NASA, MTPE and NPOESS/Integrated Program Office (IPO) personnel are actively engaged in reviewing areas of synergism between the two programs. The most fertile area for additional cooperation currently is the area of atmospheric temperature and moisture soundings, in which NASA is considering possible development of an Integrated Multi-Spectral Atmospheric Sounder (IMAS) as a candidate for flight on NPOESS and precursor operational NOAA satellites. NASA's participation is intended to facilitate the development of smaller, less expensive instrument and spacecraft systems for the converged program. Other promising areas of cooperation include sensors for monitoring Earth's radiation budget, total solar-irradiance, and ocean surface topography.

The first NPOESS satellite has a planned launch readiness date of 2007 to backup the NOAA "N" satellite, with a probable launch date of 2009. The NPOESS Integrated Program Office has recently released a Request for Proposals for Phase B definition studies for several instruments. We have already adopted as a baseline the plan to have some EOS–PM2 requirements met by the first NPOESS satellite (and perhaps a precursor).

*Question*. How much are NASA's international partners spending on MTPE cooperative efforts with NASA? What countries and/or agencies are involved and what are their major efforts?

Answer. NASA's international partners are spending approximately $4 billion in projects directly connected to MTPE through cooperative agreements and another

$4.4 billion in complementary missions during the period 1990–2000. Direct cooperative contributors include spacecraft carrying NASA instruments (e.g., NSCAT and TOMS on ADEOS–1), instruments to fly on NASA satellites (e.g., HSB on EOS PM–1), foreign launch of NASA satellites (e.g., TOPEX-Poseidon on Ariane, TRMM on H–2), NASA launch of foreign satellites in exchange for data rights (e.g., Radarsat), cooperative field campaigns involving ground-based and airborne data collection (e.g., Boreas, Pacific Rim AIRSAR), and data system interoperability to facilitate access to and sharing of data resident in foreign data bases (e.g., DARA/DLR, Russian Academy of Sciences).

For direct cooperative programs with NASA, Japan is the largest contributor, and other significant partners are France, Germany, Canada, Russia, and Brazil. The first chart below summarizes the specific cooperative projects and their value. The second chart's missions are defined and developed outside of NASA's formal programs, but the data are acquired and used by NASA scientists in conducting their research. Please note that the figures below should be considered neither official nor exact; they represent the best approximations obtained by NASA staff from various sources. Some figures are expressed in terms of actual costs to foreign partners, others in terms of comparable U.S. costs.

FOREIGN CONTRIBUTIONS TO EARTH OBSERVATIONS—ALREADY COMMITTED OR UNDERWAY

[In millions of dollars]

| Country/region | Mission/instrument | Type of cooperation | Foreign obligation |
|---|---|---|---|
| Japan | ADEOS–1 & –2; AMSR; ASTER; ODUS; TRMM. | Satellite, launch, operations, instruments, data exchange, data system interoperability. | 2,030 |
| Europe (individual countries and ESA combined). | CHAMP; CRISTA-SPAS; HIRDLS; MAS; Oersted; SAC–C (Den); SIR–C/X–SAR; SOLCON; SOLSPEC; SRTM; TOPEX/Pos; Jason–1. | Satellite, launch, operations, flight opportunities, Shuttle payloads, sensors, data system interoperability. | 841 |
| Canada | BOREAS; MOPITT; RADARSAT; SCISAT. | Satellite, operations, sensor, field campaign. | 656 |
| Russia | EOS–AERO; TOMS/Meteor–3M. | Flight opportunities, science | 56 |
| Brazil | HSB; CIMEX | Instrument, field campaigns, shuttle payload. | 12 |
| Argentina | SAC–C | Flight opportunity, operations. | 21 |
| South Africa | SUNSAT | Flight opportunity, operations. | 6 |
| Over 80 countries | Geodynamics | Operation of ground-based systems. | 334 |
| Total | | | 3,958 |

COMPLEMENTARY FOREIGN CONTRIBUTIONS TO EARTH OBSERVATIONS

[In millions of dollars]

| Country/region | Mission | Foreign obligation |
|---|---|---|
| Japan | JERS | 500 |
| | GMS | 1,000 |
| Europe | ERS–1 & –2 & ENVISAT | 3,900 |
| | METEOSAT & METOP | 6,450 |
| | 1Argos & SARSAT | 200 |
| Total | Without Operational Metsats | 4,400 |

COMPLEMENTARY FOREIGN CONTRIBUTIONS TO EARTH OBSERVATIONS—Continued

[In millions of dollars]

| Country/region | Mission | Foreign obligation |
|---|---|---|
| Total | Including foreign operational systems | 12,050 |

*Question.* Does the agency have a plan for infusion of new technologies into the MTPE program? Please explain MTPE's New Millennium program efforts and technology development efforts such as the instrument incubator? What level of funding effort on an annual basis is expected for technology infusion?

Answer. Mission to Planet Earth's technology program is focused on advanced instrument development to enable smaller, less expensive missions for the second series of the Earth Observing System, and to enable new measurements in support of evolving scientific discovery. The New Millennium Program is a jointly managed program of the Mission to Planet Earth and the Space Science Enterprise. Its goal is to provide flight demonstration missions for advanced spacecraft and instrument technologies developed by integrated product development teams comprised of industry and NASA personnel. By its nature, New Millennium demonstrates integrated, system-level technologies. The first such mission, designated EO–1, is scheduled for launch in the Spring of 1999, and will fly an advanced land imager to demonstrate the ability to meet the requirement for a post-Landsat 7 imager at a fraction of Landsat 7's cost. A second mission, EO–2, will be chosen this Summer, with competitive implementing solicitations to follow.

The Instrument Incubator is a companion advanced instrument development program to fill the technology gap between core technology components and flight demonstration-ready instruments. Thus, it focuses on subsystem and system instrument-level development. The Instrument Incubator program will enable the development of new measurement techniques, as well as reduce the size of current instruments. Technologies developed in this program may be candidates for New Millennium flight demonstrations if in-space system-level demonstrations are required.

Given the recent assumption of advanced technology development responsibilities from the former Space Technology Enterprise, MTPE is developing an integrated technology strategy. This document will be completed later this year.

Within the Mission to Planet Earth Enterprise, the technology infusion program planning runout is: fiscal year 1997—$46.7M; fiscal year 1998—$65.5M; fiscal year 1999—$55.5M; fiscal year 2000—$65.5M; fiscal year 2001—$65.5M; fiscal year 2002—$65.5M. This funding includes the New Millennium Program, sensor and detector technology, and Instrument Incubator. The EOSDIS budget includes funding for prototyping efforts related to the data system.

In addition to the technology work within Mission to Planet Earth, the Human Exploration and Development of Space Enterprise funds ground systems technologies that directly contribute to MTPE, and the Space Science Enterprise funds the advanced space technology program with a primary goal of providing innovative technologies to enable ambitious future space missions and to support development of the required space technology base in the U.S. space industry through focused joint technology efforts. Managed by the Human Exploration and Development of Space and Space Science enterprises, to address joint technology needs across all of the enterprises by working to develop crosscutting technology products for future planetary, astrophysics, astronomy, Earth observing, and human exploration spacecraft systems. These products will dramatically reduce costs and increase performance to enable new and more flexible missions.

*Question.* NASA often states that the key to MTPE is the science that will come out of the program. The General Accounting Office, the National Advisory Council, and several scientists have been critical of the amount of funds that are available for research and analysis in the MTPE program. How does the agency intend to address this concern? What is an appropriate level of funding for research and analysis?

Answer. There is a necessary balance between spacecraft, data systems and research. MTPE is providing spacecraft in order to obtain the necessary observational measurements needed to perform research and productive applications. These measurements will be used by the entire Earth sciences research community as well as by MTPE funded researchers. In a complementary way, researchers not only utilize the data but they determine the requirements, develop the computational algorithms, and validate the measurements. We are approaching the end of the development of Landsat 7 and AM–1 (launching in mid-1998), and are approaching the

peak of development of PM–1. Recognizing that MTPE measurements will be used by a number of federal agencies as well as our international and commercial partners, we have placed a premium on maintaining our performance and schedule commitments. We are proceeding as planned with missions scheduled through 2001. Budget stability is essential to keep these and several smaller missions on schedule and on budget. For subsequent missions, we are developing new technical approaches to reduce program costs and respond to new scientific understanding.

MTPE research activities include the Research and Analysis Program, mission science teams on existing spacecraft, and interdisciplinary research teams, principally associated with the Earth Observing System spacecraft. In total, MTPE funds approximately 1,900 principal investigators plus their supporting graduate students, co-investigators and research associates. The emphasis in MTPE research funding has been shifting towards interdisciplinary research consistent with NASA's focus on Earth Systems Science. As a result, the core Research and Analysis Program funding has declined. The Research and Analysis Program historically has provided the new instrument technologies, discipline process understanding and research breakthroughs in Earth sciences. There is a strong concern within the scientific community that this activity must be maintained to enable the interdisciplinary science as well as to fully utilize the new measurement capabilities to be provided by the Earth Observing System. This has been a major recommendation of our Earth Science Advisory Committee.

We have initiated a comprehensive review of the MTPE program known as the Biennial Review. This process is designed to examine MTPE as a whole, with emphasis on selected time-critical questions. This first Biennial Review is intended to support decisions on the structure of the Chem-1 mission, on implementation of EOSDIS, and on defining a strategic approach to continuing critical measurements after the first series of EOS missions. Additionally, the review will specifically focus on addressing the balance between research and measurement funding.

The review will be completed this Summer, with a formal report to follow. We intend to use the results of the review to support the development of the fiscal year 1999 budget. We will provide the report to the staffs of our Congressional committees and to other interested elements of the Congress as soon as it is completed.

AERONAUTICS

*Question*. The launching of the Lewis and Clark small remote sensing satellites has been delayed and recent press reports indicate that cost overruns with the Clark spacecraft may lead to its cancellation. What is the status of these two spacecraft? When will they be launched? Lewis and Clark are two of the first projects to incorporate the smaller, faster, cheaper philosophy with greater involvement of the private sector. Who has the rights to the data that will be gathered from these satellites? Will the data be commercially available? Will scientists funded by the government have to buy the data at commercial rates? What if any lessons have been learned from this effort to date?

Answer. The Small Spacecraft Technology Initiative (SSTI) Lewis and Clark missions were originally scheduled for launch in the 4th quarter of fiscal year 1996. Both missions are experiencing unplanned delays in launch. While the Lewis spacecraft development was completed on schedule, it is now being held in storage at TRW waiting resolution of launch vehicle technical problems identified through the failure of the demonstration launch of the newly developed, low cost, commercial Lockheed-Martin launch vehicle in the Summer of 1995. The launch vehicle return-to-flight recovery has been protracted.

The SSTI contractors are totally responsible, under their contracts, for the procurement of the SSTI launch services; however, the launch services subcontracts make no provisions for oversight of the development of the launch vehicles. The difficulties being experienced through the delay in return to flight of the launch vehicle are broad reaching across NASA programs, therefore, the Agency is exercising direct oversight of flight recovery activities. Currently, several high risk items remain to be resolved before return to flight; however, it is anticipated that launch of the Lewis mission will be during Summer 1997.

The original development costs for Lewis and Clark was $108.3M. The fiscal year 1998 President's budget shows $122M through fiscal year 1997. The Lewis mission is a fixed price procurement with cost plus provisions for launch delays caused by the launch vehicle. The launch services are a fixed price subcontract; however, costs being incurred for the storage of the spacecraft are covered under the cost plus provisions. As of the February status assessment, it was projected that another $1.3M will be required in fiscal year 1997 beyond that currently planned for the program to defray the costs of launch delay storage of Lewis.

The Clark mission is a cost plus procurement. Based on the February assessment, the technical problems incurred by Clark new technology developments have resulted in the need for an additional $5.7 million above the plan in fiscal year 1997. Clark failed to meet its 2-year development schedule requirement for reasons which include the following: a large number of technology developments, a limited CTA manpower base which has been unable to respond to technical problems in system engineering, and an overly complex contractor decision structure that has fostered slow responses to problems. Several recent assessments indicate that the Clark mission may exceed the 15 percent cost overrun threshold NASA has established for its programs. A comprehensive program status assessment is in progress, being conducted by CTA Management. We are awaiting this report for evaluation during Summer 1997. The assessment will enable us to evaluate the strengths and weaknesses revealed by this new way of doing business.

A major program objective for the dual missions is to proactively promote commercial technology applications. However, all participants must recognize and understand that Lewis and Clark is a research and demonstration program, not an operational scientific or commercial mission. The Earth remote sensing applications for both spacecraft are intended to understand new technology and applications development, risk assessment, and market expansion opportunities to support private sector investment for future operational systems.

Another program is the data management and policy for "tasking" of on-board instruments for both science and commercial objectives and distribution of, and access to, archived data sets. Four classes of experiments requiring tasking of the spacecraft have been identified: (1) commercial remote sending applications, (2) technology demonstrations for both spacecraft and instruments, (3) science demonstrations, and (4) education. Everyone who desires Lewis and Clark data requiring tasking of the spacecraft will be required to have an approved experimental plan and a mechanism to report on progress and results. In addition, those participants not directly associated with the SSTI program who desire tasking of the satellite will be required to have a signed Space Act Agreement through NASA Stennis Space Center (SSC). TRW (Lewis) and CTA (Clark) are responsible for all satellite data acquisition for the first year of operation.

Once acquired from the satellites, all data sets and data fusion products will be integrated through the Mission Data Management System (MDMS) at NASA Stennis Space Center. These data sets include the satellite state of health, technology demonstration data, and instrument data, and will provide the baseline for all archival data products and distribution of all data and data products. The fundamental concept for SSTI data distribution is non-exclusivity of data after validation and processing data to radiometrically corrected status (Level 1R2). The MDMS will provide standard services associated with distribution of Level 1R2 data to all approved users with tasking rights. Level 2 through 4 processing of data will be performed on a negotiated basis for SSTI and Space Act Agreement participants. Level 1R2 data will be distributed to the Eros Data Center (EDC). Level 2 through 4 data products will not be distributed to EDC. Access to Level 1R2 data from EDC will be provided on a nondiscriminatory basis to any requester within the technical limitations of the system. Although NASA retains ownership and all rights to the Level 1R2 data processed by SSC, there will be no restrictions imposed by NASA on the subsequent use, sale, or redistribution of data from SSTI spacecraft. The permanent archive for the data sets will be kept at Eros Data Center (EDC), where public access will be provided for the cost of reproduction.

*Question*. What is the status of aircraft consolidation at Dryden Flight Research Center? What are your plans for the DC–9 at Lewis Research Center that is used for microgravity research? Is NASA going to renew the DC–9 lease, and if not, why not?

Answer. NASA will move the aircraft currently located at Ames Research Center to Dryden at the earliest opportunity, without disrupting ongoing research programs. We believe consolidating the California-based aircraft at Dryden will result in significant cost savings. In addition, we believe it is critical to NASA's future that Ames fully focus on its roles and missions as defined by the Zero Base Review. In order to achieve this, Ames must move out of other mission areas such as aircraft operations.

NASA is prohibited by law from using any fiscal year 1997 appropriations to consolidate aircraft based east of the Mississippi River at Dryden. At this time, we have no plans to relocate any of these aircraft to Dryden for purposes of consolidation. However, we are proceeding, as planned, with decommissioning aircraft which are no longer programmatically required, as recommended by the Zero Base Review. The NASA Inspector General's final report of August 12, 1996, recommended that

"NASA should immediately decommission all aircraft no longer having a programmatic need to achieve an estimated $21.8 million savings."

After planned decommissionings at Langley Research Center (LaRC) are completed by October 1, 1997, there will be five aircraft at LaRC supporting a variety of programs. These are a T–34C, a UH–1H helicopter, a BE–200, a T–38 and the B–757.

The new Wallops Mission 2000 includes plans for the Wallops aircraft fleet to include one NASA-supported research aircraft, one NASA administrative aircraft, and one aircraft jointly funded by NASA and the Navy. Wallops will remain the deployment site for Mission to Planet Earth science missions using various NASA research aircraft, regardless of basing.

NASA is terminating its lease of the DC–9 microgravity research aircraft located at Lewis Research Center at the end of the current lease period, July 21, 1997. The reason is that NASA's current microgravity research requirements for parabolic flight can be met using the KC–135 aircraft which is based at Johnson Space Center in Houston. Should additional capability be needed in the future, NASA would first seek parabolic aircraft support via commercial means.

Programmatic requirements for all remaining NASA aircraft will be continually reassessed to ensure NASA is using its resources in the most efficient manner.

*Question.* Because of budget constraints and limited financial support from industry, the Administration has decided to forgo the construction of a new National Wind Tunnel Complex. Does NASA plan to upgrade some of its current wind tunnels to meet future needs? Will the issue of a National Wind Tunnel Complex have to be revisited in the future?

Answer. While full achievement of the NWTC capability is not affordable at this time, NASA believes that significant improvements to the nation's testing capability can be made at relatively low cost. Using $35 million in fiscal year 1995 NWTC funding, NASA has developed the Aeronautics Design/Test Environment Program (ADTE) to address ways in which wind tunnel testing may more effectively contribute to the design process. Objectives include increasing confidence in wind tunnel to flight extrapolation, reducing the cost and time associated with the testing process, increasing the quality and quantity of data obtained during test, and efficient conversion of data to knowledge that is applied to the design process. These objectives are being met by a combination of Information Technology (database management and mining, user-remote access, condition-based maintenance), advanced instrumentation and model design technologies, and computational methods for predicting non-flight effects introduced by the wind tunnel. Although these developments are initially being implemented using facilities at Ames Research Center, results from this program will have applicability to most of NASA's wind tunnels.

Further, NASA has engaged industry and the Department of Defense in discussions to define facilities test technologies, research, and development actions needed in the years beyond completion of ADTE to further improve the Nation's aeronautical testing capability. These activities are generally aimed at low cost improvements to existing facilities, equipment, or test techniques.

In prior years NASA has identified and budgeted two major programs to modernize and improve existing wind tunnel capability. These are:

The Aeronautical Facilities Revitalization Program, a $300 million modernization program funded in fiscal year 1989–95. This program made major productivity and reliability improvements to many of NASA's wind tunnels, including the 12″ Pressure Wind Tunnel and the Unitary Plan Wind Tunnel at ARC, the National Transonic Facility and 14 Ft X 22 Ft Wind Tunnel at LaRC, and the 8 Ft X 6 Ft and 9 Ft X 15 Ft Wind Tunnels at LeRC.

The National Aeronautics Facilities Upgrade Program (fiscal year 1994), a $172 million program that in addition to funding studies and design for the NWTC, makes further performance and productivity improvements to the Unitary Plan Wind Tunnel at ARC; the National Transonic Facility, 14 Ft X 22 Ft Wind Tunnel, and Transonic Dynamics Tunnel at LaRC; and the Icing Research Tunnel and Composite Technology Center at LeRC.

NASA does not currently plan to accomplish any further major upgrades to current wind tunnels but will continue to pursue relatively low cost improvements within available funds. While full achievement of NWTC capability was not deemed affordable in the current budget environment, we believe the issue will have to be revisited in the future.

QUESTION SUBMITTED BY SENATOR MIKULSKI

*Question*. I have been advised that NASA is considering relocating CASI's activity from its existing location in Maryland. As the Appropriations Committee indicated in its report (S. Rpt. 104–318) accompanying the fiscal year 1997 Appropriations bill for NASA, I am interested in all costs, direct and indirect, associated with relocation. It is essential in this economic environment to ensure taxpayer's funds are spent prudently. I urge you to seek savings at the existing facility before you undergo the expense and personal disruption that occurs with any federal relocation. We should seek to avoid the disruption in the work of a facility and its employees unless significant cost savings dictate otherwise.

Please provide to the Committee a status report on NASA's plan for CASI. I would also like for NASA to keep the Committee informed on significant occurrences regarding this important facility.

Answer. NASA already has sought, and achieved, significant savings at the Center for Aerospace Information (CASI) located in Linthicum, Maryland. Since May 1995, NASA has made significant improvements and efficiencies in the services offered by CASI which have enabled the Agency to reduce its utilization of the CASI facility. The facility currently housing CASI operations is only 50 percent utilized and space requirements will continue to decrease. The Headquarters Scientific and Technical Information (STI) Program (primarily CASI) annual budget has decreased from $12 million in year 1995 to $8 million in year 1997. Reductions over the next four years will result in a budget of approximately $6 million by year 2000. The current CASI facility costs the Program $1.5 million annually, and cannot be supported on a $6 million annual budget without impacting the STI Program.

In February 1997, the current facility owner was notified of NASA's interest in renegotiating the last year of the lease. In March 1997, the current facility owner submitted a proposal to NASA based on utilizing approximately one half of the current leased space. NASA has also received proposals from each of the contractors responsible for CASI operations (Computer Sciences Corporations and NCI Incorporated) to provide a smaller facility in Maryland for CASI operations. NASA is currently conducting a detailed cost comparison of these three proposals which includes ongoing costs, moving costs, and associated start-up costs. NASA anticipates concluding its review within the next several weeks, and will inform Senator Mikulski of our findings.

SUBCOMMITTEE RECESS

Senator BOND. Thank you very much. The hearing is recessed.

[Whereupon, at 11 a.m., Tuesday, May 6, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

# DEPARTMENTS OF VETERANS AFFAIRS AND HOUSING AND URBAN DEVELOPMENT AND INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1998

---

**TUESDAY, MAY 13, 1997**

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, DC.*

The subcommittee met at 9:40 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Christopher S. Bond (chairman) presiding.

Present: Senators Bond, Shelby, Mikulski, and Leahy.

## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

### STATEMENT OF ANDREW CUOMO, SECRETARY

OPENING STATEMENT OF CHRISTOPHER S. BOND

Senator BOND. Good morning. The VA, HUD and Independent Agencies Appropriations Subcommittee hearing will come to order. This is our last scheduled hearing of the fiscal year 1998 budget, and I welcome Secretary Cuomo and our other guests for being with us this morning. This is essentially a rainout date from a month ago. I am sure the additional month has provided the Secretary in his new position with some fresh insights into the many problems and issues that face the Department.

As always, the hearing on HUD is one of our most important hearings. This is an agency that administers some 240 programs and activities, including such important programs as the Public Housing Program, the Section 8 Program, the Community Development Block Grant Program, the HOME Program, the McKinney Homeless Assistance Program, the Sections 202 and 811 Programs, and the FHA mortgage insurance programs.

Moreover, whatever the final terms of the budget agreement to balance the Federal budget by the year 2002, this subcommittee, I fear, is going to face another very difficult year of budget decisions. We are faced with increased EPA costs, including calls for increased funding for Superfund cleanup, two NASA contingency plans, and costs for the international space station, to increase veterans' medical and benefit needs, to the skyrocketing cost of renewing HUD expiring section 8 contracts.

INCREASE IN SECTION 8 COSTS

As Secretary Cuomo well knows, I continue to be very concerned about the skyrocketing cost of the expiring section 8 contracts and the continuing Federal commitment to those low-income families, many of whom are elderly and disabled. The cost is staggering, and the need is dramatic.

As I have mentioned to Secretary Cuomo in the past, I continue to be very much concerned and will be asking questions about the Department's recent discovery of $5.8 billion in section 8 contract reserves, which became the funding vehicle for the supplemental. This discovery of additional reserves comes at a time when the Section 8 Program faces ballooning costs. How ballooning? Well, as most of us here who deal with the budget know, the 1997 appropriation act provided $3.6 billion in budget authority to cover the cost of renewing all expiring section 8 contracts for fiscal year 1997. The cost of renewing all section 8 contracts for fiscal year 1998, a total of some 1.7 million expiring contracts, will require an appropriation of some $10.2 billion in budget authority for fiscal year 1998. That is an increase of $6.6 billion in additional costs to the Section 8 Program for just 1 year.

That cost of expiring section 8 contracts will continue to increase to $11.9 billion for fiscal year 1999, $13.7 billion for fiscal year 2000, $15.1 billion for fiscal year 2001, and $16.4 billion for fiscal year 2002. While I am hopeful that the budget agreement will address some or all of the section 8 costs, there also are many other critical issues facing the Department.

NEED FOR HUD REFORMS

Over 2 years ago, I convened a series of hearings which focused on HUD's management and fiscal deficiencies, including program issues. This subcommittee and HUD have taken a number of meaningful steps to reform HUD and HUD programs since those hearings, but there remains significant HUD management programs and fiscal deficiencies which still need to be addressed. Because of these concerns, a number of Senators continue to advocate eliminating the Department and devolving its responsibilities to States and localities. To be blunt, Mr. Secretary, we challenge you to make the necessary administrative, management, and fiscal reforms that will justify Congress's continued support of the agency and the role of the Federal Government in providing affordable low-income housing and programs targeted for the economic development of our States and localities.

In the last 4 years, I have watched the Department continue to reinvent itself. While there seems to be lots of movement, HUD often seems to be on a hamster wheel, never moving forward. In particular, GAO continues to designate HUD as a high-risk area, the only Cabinet level agency ever designated agencywide as a high-risk area, vulnerable to waste, fraud, abuse, and mismanagement. GAO's concerns result primarily from four longstanding departmentwide management deficiencies identified as recently as February 1997. They are, No. 1, internal control weaknesses, such as a lack of necessary data and management processes; No. 2, poorly integrated, ineffective, and generally unreliable information and

financial management systems; No. 3, HUD organizational problems, such as overlapping and ill-defined responsibilities and authorities, including a fundamental lack of management accountability and responsibility; and No. 4, an insufficient mix of staff with proper skills for the effective monitoring and oversight of HUD's programs.

In addition, the HUD inspector general echoes GAO's concerns with an emphasis on HUD's lack of capacity to carry out its programs and initiatives. Also, the National Academy of Public Administration July 1994 study, "Renewing HUD, a Long-Term Agenda for Effective Performance," advised that between 1980 and 1992 HUD statutory mandates increased from 54 to over 200 programs, and the HUD inspector general's best educated guess on the number of existing HUD programs still exceeds 240 programs. The NAPA report also questioned HUD's ability to achieve its mission because of an overload of programs that, quote, "saps HUD's resources, muddles priority, fragments the Department's work force, creates unmeetable expectations, and confuses communities." This is a harsh but real assessment.

Nothing has occurred at HUD yet that convinces me that HUD has really taken to heart and addressed these concerns, and that is something that the ranking member and I are particularly concerned about. These concerns have to be resolved. As a practical matter, HUD is one of the Nation's largest financial institutions, with sizable commitments, obligations, and exposures. HUD is responsible for managing more than 400 billion dollars' worth of insured mortgages, $485 billion in outstanding mortgage-backed securities, and some $180 billion in prior years' budget authority for which it has future financial commitments.

I again urge the Department to work with Congress in a bipartisan manner in assessing HUD's programs and how they should work. We need to work on this together. We have made some progress, as I indicated, but the Department's ultimate success will depend upon a bipartisan approach and on cooperation in defining and refining HUD's mission while clarifying and consolidating the responsibilities and requirements of HUD's programs and, most importantly, achieving control and understanding of the Department's enormous fiscal responsibilities.

REDIRECTION OF DECISIONMAKING TO LOCALS

Finally, I emphasize a continued need for the Department to redirect the responsibility for HUD programs and activities from the Federal Government to State and local decisionmaking. There is already evidence of tremendous success through programs like CDBG and HOME, where HUD is at most a junior partner to the State and local decisionmaking in the use of block grant funds. This is critical. No longer can, or should, the Federal Government do it all. Programs like HOME, CDBG, the low-income housing tax credit, the national community development initiative, are successful because they leverage State, local, private, and nonprofit resources to expand the availability of affordable housing and to create new economic development initiatives. Most important, the decisions are State and local decisions that respond to State and local needs.

The future success of HUD, in my view, will depend on getting away from a one-size-fits-all, Washington-determined approach to a partnership that relies on State and local decisionmaking.

Before we turn to your comments, Mr. Secretary, I would like to call on my distinguished ranking member, the Senator from Maryland, Senator Mikulski.

STATEMENT OF BARBARA A. MIKULSKI

Senator MIKULSKI. Thank you very much, Mr. Chairman. I will not either repeat or amplify your remarks. I know that first of all we want to welcome Mr. Cuomo, our new Secretary of HUD. We are looking forward to making sure that we fulfill the mission of HUD, that there is the financial or money resources to do it, and I know in our conversations your passion for improving the management at HUD. So if we could focus on those M&M's, I think that we would have a very successful next fiscal year.

I have now worked with four secretaries of HUD, Mr. Pierce, Mr. Kemp, Mr. Cisneros, and now you, and I believe that our focus, along with yours, is to make sure that HUD continues or focuses on HUD as an empowerment agency where, whatever we do through the Housing and Urban Development, we remember it is housing and urban development. We give help to those that practice self-help.

Let me say that what I am thinking about in terms of the mission or the empowerment model is that one of our primary goals is to promote home ownership for the middle class or near middle class. FHA continues to be a very important tool for people who are moving from welfare to work or in new opportunities to leave public housing. I hope we would come up with new thinking to promote home ownership even among those normally left out of the opportunity to participate.

In terms of those, though, who will not be moving to home ownership, that where we spend our subsidy money again gives help to those that practice self-help, and will be looking at ideas on, No. 1, how section 8 is truly an opportunity and not a hollow opportunity for the poor. I have been deeply concerned that often section 8 has been a hollow opportunity for the poor, simply a voucher to say another decrepit, rundown, drug-infested neighborhood with significant subsidies to landlords, creating sometimes a new class for landlords without the standing sentry over section 8 to both make sure that it is an opportunity, that we are getting 1 dollar's worth of housing for 1 dollar's worth of taxes, but most of all that it is open opportunity.

We will be talking more, I know, in terms of the resources for FHA, CDBG, and, of course, our big concern over section 8 and the ability to meet our contracts.

On the management issue, Mr. Secretary, I hope we can have a dialog on where HUD is on implementing the NAPA, or the National Association of Public Administrator recommendations, on management reforms in section 8, how we are implementing HOPE VI, and then also some new thinking particularly in housing for the elderly. When Pat Harris was Secretary of HUD under President Carter, I believe we had the most significant advance in creating housing for the elderly. That has now been 21 years ago. Many of

the seniors who moved into that housing for the elderly, many in my own home town of Baltimore have now aged in place. We have old buildings, and now people who moved in when they were in their sixties are now in their eighties. The buildings are starting to get frail and so are the elderly living in them. I want to discuss with you how we could begin to prepare for what type of activity needs to go on in those particular, the aging housing for the elderly where both the buildings and the seniors themselves are aging.

So this is what we are looking forward for, which is to stick to the mission, let us make sure we make wise use of the money, and really pursue those management priorities that I know that you have in mind. I look forward to working with you.

Senator BOND. Thank you, Senator Mikulski.

Senator Leahy.

STATEMENT OF PATRICK J. LEAHY

Senator LEAHY. Thank you, Mr. Chairman. I am delighted to see Secretary Cuomo here. He may come from the more populous side of Lake Champlain, but Vermonters know him very well and know how helpful he has been to us. I have been struck by the fact that the Secretary, even though he comes from one of the most populous areas of the country, has never forgotten the fact that we have homeless and housing needs in rural areas like Vermont. I have been able to work with him a great deal Mr. Chairman, especially on HUD's homeless assistance programs. I think he brings more personal experience and commitment to Federal homeless assistance programs than any of his predecessors.

In my own State of Vermont, a State smaller than many suburban towns in this area, 6,000 people every year spend at least a night in our homeless shelters. This is in a State as small as ours. I do not think I need to tell anybody how important those shelters are when the temperature is at 20 and 30 below zero, as it often is in the middle of the winter in Vermont. Just over 1 week ago, I was at a fundraising event for the Committee on Temporary Shelter in Burlington, VT. It is called COTS. Hundreds and hundreds of people came, raising money to help other people less fortunate than themselves. In fact, I think nearly one-half the money COTS raises is from donations like these.

We are going to have to set priorities in the budget battle, but I am very concerned that funding for the homeless programs could become a casualty. I am also concerned about the focus of homeless assistance. Often the services that our aid organizations provide like job training and counseling and child care are just as important as the shelter itself. Without these kinds of services, the child care, the placement, the job training, the person might go to temporary shelter and then be right back out on the street with nowhere to go. Legislation has been introduced in the House that would sharply limit HUD's services for the homeless. I think funding for these activities is not only appropriate for HUD, it is essential.

Mr. Secretary, I have other questions. I am going to be at a chemical weapons hearing for awhile, but I will be back for questions because I do want to work with you to make sure that we do things to help those people who are temporarily homeless and

those people who are looking for shelters, but also looking for a way to get into the work force. Mr. Secretary, I have found that while sometimes those in your position have had a focus solely on urban areas, you, sir, have always shown a commitment to the rural areas, and in Vermont that is much appreciated.

Thank you, Mr. Chairman.

Senator BOND. Thank you, Senator Leahy. It is always a pleasure to be working with you. You certainly have a banner day going back and forth between chemical weapons and HUD. We will——

Senator LEAHY. I just hope that I do not ask the wrong questions at the wrong one. [Laughter.]

Senator BOND. They might apply in both places. [Laughter.]

We will await your return. With that, Mr. Secretary, if you would proceed, please.

STATEMENT OF ANDREW CUOMO

Secretary CUOMO. Thank you, Mr. Chairman, Senator Mikulski, and Senator Leahy. First, let me take the opportunity to thank the committee for all the good work we have already done these past few months. Although it is my first opportunity as Secretary to appear before the committee, I have had the good fortune to work with this committee over the past 4 years, both on a staff level and on a principal level. I think the relationship we have already struck bodes well for the future.

INTRODUCTION OF HUD STAFF

If I might just take a moment to quickly run through the HUD team that is here, Mr. Chairman, to maybe put a face with some of the names you may have heard bandied about. They are seated behind me and I would ask them just to signal when I mention their name. Margaret Sullivan is here, who is the new Chief of Staff of the Department. This is her second week at the Department of Housing and Urban Development, and I hope this hearing does not dissuade her, push her toward an early retirement.

We have Assistant Secretary Nic Retsinas who you know well, Inspector General Susan Gaffney, Marilynn Davis, who is Assistant Secretary for Administration, Michael Stegman, Policy Development and Research Assistant Secretary, Kevin Chavers who runs GNMA, Kevin Marchman, Assistant Secretary for Public Housing, Paul Leonard, who is going to be helping us on the charts today and is the Deputy Assistant Secretary for PD&R, Mark Kinsey, who is the Acting Director for OFHEO, Bob Hickmont, who is Counselor to the Secretary, and Cheryl Fox, who is Issues Adviser to the Secretary.

Mr. Chairman, if it suits the committee I have a full statement that I would offer to be put into the record, and for the sake of time I will just abbreviate my comments.

Senator BOND. Mr. Secretary, we will include your full statement in the record and would give you 10 minutes for your opening statement, realizing we will have to cover much of this in the questions and answers afterward. We appreciate your summarizing the important points of your statement.

Secretary CUOMO. Thank you, Mr. Chairman. It is a challenging time, indeed, to take the mantle of the HUD leadership. There is

a lot of good news. It seems like there is more good news everyday, 12 million new jobs, crime is down, poverty is down, unemployment is at its lowest in 24 years. We now talk about balancing the budget by the year 2002, which a few years ago would have been an unheard of, unprecedented accomplishment.

But in the light of all this good news there are still real problems out there, as the chairman pointed out in his opening statement, and certainly problems that are on the horizon for us. You still have 600,000 homeless Americans who sleep on the streets at night. You have the Dow Jones hitting record heights, but you still have one out of five children sleeping in poverty. You have 5 million Americans who spend over 50 percent of their income for rent. You have millions and millions on housing lists waiting for section 8 and public housing who we have not even contemplated a solution for. All this at a time when the cities are getting older, they are getting more minority, they are getting poorer, and the poverty in our cities today is becoming more isolating and more concentrating. More and more the accumulation of wealth is accompanied by flight to the suburbs. And all of this, again, when the economy is working well, indeed in historic proportions.

John F. Kennedy was right. A rising tide does lift all boats. But I feel in this rising tide some are just treading water, and that the high tide is actually covering some obstacles that lurk just beneath. When this economy turns around and when this economic cycle completes itself, which is inevitable, and when the tide recedes, I fear it will expose real problems that have been hidden just beneath the surface. You have crumbling infrastructures, dysfunctional education systems, loss of neighborhood economies, loss of affordable housing stock, and on the shoals will be not just America's cities but older suburbs, aging themselves and now experiencing problems once thought to be the sole province of urban America.

HUD's role is indeed more critical than ever before, and I would urge you, Mr. Chairman, not to abandon the worthy goals of this Department to help needy Americans and communities just because we are frustrated with the flaws in a bureaucracy undoubtedly going through a transition.

PRIORITY—AVERTING SECTION 8 CRISIS

We have facilitated the presentation today with a few charts. We will just organize an overview, and then we will get to your questions. Mr. Chairman, there are four basic priorities for the Department which I think we would all share. The first is averting the so-called section 8 crisis, the renewal crisis you know so well. The second is expanding affordable housing opportunities. Third is making welfare reform work, and fourth is restoring the public's trust in the Department.

On the section 8 crisis, and again this committee has brought it to the attention of the American public, we have this wave of contracts which are expiring in 1998—approximately 1.8 million units. This is not just important in terms of units, but the number of Americans who actually live in these units are staggering. This year 4.4 million Americans are in expiring units. These 4.4 live all across the country, every city, every community across the country.

The problem gets worse in the next few years, so solving it this year is not the end of it, but it is the first step on a journey.

We do not come to you today asking you to renew all the contracts and finding more money in a tight budget. We have also done our part on the reform savings side to try to save funds, and we have saved about $2.4 billion in fiscal year 1998 alone. Where we saved the money first of all is through ending excessive subsidies to landlords. That is bringing down what we call the out of whack rents. There is nothing more infuriating to me than at this time of tight budget resources we should be paying landlords more than a fair market rent. Cities like Las Vegas, where the fair market rent is $380, we pay $820. Chicago, the fair market rent is $435, we pay $849. Washington, DC, fair market rent is $499, Government pays $734 for the same apartment. It is indefensible, and you cannot explain to the American people why we would be in this situation.

There was a so-called market solution which we proposed a couple of years ago. The legislation did not go anywhere, as the chairman knows well. There were two flaws in the legislation. No. 1, we did not have a tax fix to make it work and, No. 2, we did not have a good plan for extended affordability. We have proposed legislation now called the housing 2020 which has both a tax fix which will allow this financial calculation to happen, and it extends the affordability of the units that we secure for an additional 15 years. The housing 2020 legislation would save about $1.4 billion over the next 5 years.

Additional savings we get from increasing the number of working families to fill vacant units, limiting the annual adjustment factors for project-based units, maintaining what we call the $25 minimum rents, reducing administrative funds to the public housing authorities, and a host of smaller miscellaneous savings.

PRIORITY—EXPANDING AFFORDABLE HOUSING

The next priority of the Department is to expand affordable housing opportunities. The first word in our name is housing, and that is our job. We again propose 50,000 new housing certificates, remembering that all of this discussion of the section 8 renewals only protects the status quo. You only house those people who are currently housed. This is at a time when you have millions on waiting lists all across the country that we are not even beginning to talk about. Our stab in that direction as far as an affirmative housing policy is to suggest 50,000 new certificates, which would be called incremental.

The second goal is to increase home ownership, as Senator Mikulski pointed out. There can be no higher goal for the middle class moving up through FHA and for people coming off of the welfare to work experience and public housing experience. We have an item in the legislation that I am very excited about which would allow a section 8 certificate to be used for home ownership. If a person can use a section 8 certificate to pay a landlord's mortgage, why not pay their own?

Senator Leahy spoke about the homeless programs, and we have had a good deal of success with them. We will keep them going with our continuum of care program. With the transformation of

public housing, we will continue to go with the HOPE VI Program which exists, thanks to the good work of members of this committee. We have some suggested reforms for HOPE VI which we think can make a good program a better program. We have learned some lessons and we have some suggestions for getting a handle on the costs of the units and a way to move the money faster. We would continue to build on the success of the HOME Program, which has constructed about 114,000 units, and continue to insure fair housing.

PRIORITY—MAKING WELFARE REFORM WORK

The next priority is making welfare reform work. While welfare reform is not the obvious bailiwick of the Department of Housing and Urban Development, it is the critical issue in the cities and communities that we serve. To address welfare reform, and to get on the economic development agenda, we have a number of initiatives which the committee is familiar with including the second round of empowerment zones and a $25 million brownfields initiative. There are about 450,000 brownfields in this Nation stopping development. This is a joint initiative with EPA which would give us a real solution to the brownfields problem. It will include the CDBG Program, EDI funds, 108 loan guarantees, Youthbuild, and Bridges to Work, which says maybe the jobs do not have to be in the cities, maybe we can get the people from the cities out to the suburbs where the jobs are, and again, 50,000 new housing vouchers.

PRIORITY—RESTORING PUBLIC TRUST

The final priority, and probably in my opinion the most important, Mr. Chairman, is restoring the public's trust, and when we say public's trust we include the U.S. Senate in the public. And that works on a number of levels: cracking down on bad landlords, which we have done; ending the waste, fraud, and abuse in the Section 8 Program and in the multifamily portfolio. We have done 39 what are called debarments of landlords so far this year, where they are kicked out of the program. That compares to 24 of all of last year. We have a new partnership with Attorney General Reno. We say if you think you are going to rip off HUD any more, you had better think again. We are doing it on that level.

We are cleaning up troubled housing authorities. In our legislation, we have some tough new measures that say use it or lose it. We are not going to leave the money in the pipeline. If the public housing authority cannot spend it, we will take it back. For troubled public housing authorities, we have a very tough measure that says if you are troubled at the end of 1 year, you go to a judicial receiver to run the housing authority. New changes to FEMA which would make it a better grading system. We extend that to clearing out the drugs, the gangs, and the crime, and we extend it to ourselves, Mr. Chairman. We have taken a very aggressive stance on the management of the Department.

PRIORITY—MANAGEMENT REFORMS

As I said to you during the confirmation hearings, I understand the concern of this committee. Cleaning up our own house is job one. You mentioned past efforts by the Department and Secretary Cisneros. Secretary Cisneros had some very bold reinventions which were primarily geared toward program reforms but also required legislation that we never got. We have made it a focus to address the issues that concern this committee, the management issues, the financial issues. I think it is fair to say that the Department has never begun a more sweeping internal reform than the one we are going through, and I would ask this committee to give us support for the legislation we need and a window of opportunity to allow us to complete what we have embarked on, all this at a time when the Department will continue to downsize from a high of about 13,000 employees when we started 5 years ago down to about 7,500 by the year 2000.

PREPARED STATEMENT

But again, management will be job one, Mr. Chairman. I am looking forward to doing it with this good committee. Thank you.

[The statement follows:]

PREPARED STATEMENT OF ANDREW M. CUOMO

Chairman Bond, Ranking Member Mikulski, Members of the Subcommittee: thank you for inviting me here this morning. If it pleases the Subcommittee, I would like my testimony entered into the record. Thank you.

I am honored to have been chosen by President Clinton as HUD Secretary at this decisive moment in the Department's history. I was proud to serve with Secretary Henry Cisneros, whose leadership and commitment to our mission transformed HUD into a vibrant, vital force for the American people and their communities.

Today, HUD is a stronger, abler, leaner, more cohesive Department because of Henry's leadership. He is, in my opinion, the best Secretary in the history of the Department. While it will be difficult to fill his shoes, it is my privilege to follow in his footsteps and build on the good job he began.

I know that Secretary Cisneros had a positive working relationship with members of this Subcommittee. I pledge to do all I can to make sure that this productive, bipartisan relationship continues.

Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to discuss HUD's reform efforts and plans for the future. It is my pleasure to present the Clinton Administration's budget for the Department of Housing and Urban Development for fiscal year 1998—especially in light of the historic balanced budget agreement that was achieved just eleven days ago.

As the members of this Subcommittee know, I come to this hearing today not just as the HUD Secretary, but as a person who spent more than ten years working on these issues in the private sector. I entered housing—not as a government official—but as a builder, operator, and manager, responsible for meeting a payroll and balancing a budget. I have known the joy and pain of building housing, creating jobs, and filling out grant forms—from both sides.

To me, the mission of HUD—and the larger mission of this Subcommittee—has never been more vital than it is today. The need to create safe, decent and affordable housing for all Americans; the need to create jobs and bring opportunity to our communities; the need to empower our people and help them get the skills they need to lift themselves up—these challenges are just as great and just as pressing as they have ever been.

But today, we have an entirely new dynamic. We have to meet these challenges while also meeting the very real challenge of moving millions of our fellow citizens from welfare to work. As the department responsible for housing more than a quarter of the families on welfare today; as the agency with potentially the largest economic development portfolio in government; and as the department that deals most directly with cities, where most people on welfare live; welfare reform shines a spotlight on HUD like never before.

We recognize that these challenges come at a time when the federal government has fewer and fewer resources. If we had to make a choice between fiscal prudence and meeting the needs of troubled Americans, the choice would be difficult—indeed.

But in truth, we have no choice because we have an undeniable responsibility to balance the budget. And, at the same time, we have an equally undeniable responsibility to meet the challenges that lie ahead. How do we do that? With a government that is smarter and smaller—and a Department that is more sharply focused and better managed.

We must be willing to admit that some programs do not work. We must recognize the right roles for the government and private sector. We must crack down on waste, fraud, and abuse wherever and whenever we find it. We must understand that quick-fix solutions do not work—that many of these challenges, as you have rightly pointed out, Mr. Chairman—require long-term structural changes.

And, we must be willing to acknowledge that if we're going to solve these problems, the answers will not just come from the top down, but from the bottom up. In the last four years, we have learned: there are no people who understand the needs of a community better than the people who live in a community.

By listening to the American people, by working together the past four years, we have proven that we can produce real results for America. Today, because of all of our efforts, the economy is strong. Jobs are up, homeownership is up, and cities are coming back. At the same time, crime is down, poverty is down, and unemployment has hit a 24-year low.

Since President Clinton took office in 1993, the annual federal deficit has been cut by nearly 80 percent, from $290 billion in 1992 to a projected $70 billion in 1997. As a proportion of our economy, the U.S. budget deficit is now the smallest of any major nation in the world.

Now, we are at a turning point. The historic balanced budget agreement we signed 11 days ago will help us finish the job we started four years ago. We have come together—Democrats and Republicans—to agree on a balanced budget with balanced values that will help Americans buy a home, start a business, save for retirement, and send their kids to college.

For America's cities, this budget comes at a crucial time. Despite all our progress, today, one in five American children live in poverty. One in four Americans who needs housing assistance gets it. Over five million very low income families spend more than 50 percent of their income on rent. The challenges are great but the response of this budget agreement is strong.

But make no mistake about it: if the Congress, in a bipartisan spirit, lives up to the commitments in the budget agreement, this budget can be good for America's cities. For the people we serve at HUD, for the people who are struggling to move from welfare to work, who live in urban America, this budget can be a big win.

The aggregate level of resources in this budget agreement is sufficient not only to renew Section 8 contracts, but also to provide for other urban priorities. Failure to renew all expiring Section 8 contracts would likely put over 4 million people in the street. Full renewal will help us maintain America's historic commitment to providing decent, safe, affordable housing well into the next century.

This agreement also provides enough resources to meet other urban priorities in the President's February budget. It does so by:

—Expanding our empowerment zones and enterprise communities. In less than two years, 95 percent of our EZ/EC's nationwide have shown substantial progress. Over $2 billion in private investment has been leveraged nationwide. A second round of EZ/EC's will help bring even more jobs back to our urban communities.

—Expanding the Brownfield Redevelopment Initiative. In cities across America, abandoned factories sit vacant. This will help mayors transform those properties into vital centers of the community.

—Maintaining the low income housing tax credit at its present level. Millions of Americans have used this credit as a stepping stone to a better life.

—Providing $2 billion to help move people from welfare to work in combination with an expanded wage tax credit to help companies create opportunities for long-term welfare recipients. On one hand, this will help welfare recipients get the skills and services they need to move into the workforce. On the other hand, employers who hire them get a 50 percent credit on the first $10,000 a year of wages for up to 2 years.

—Funding the America Reads initiative. A lot of kids who live in public housing need help with basic skills. This initiative will help mobilize a million tutors to help three million children learn to read by the end of the third grade.

—Expanding health coverage for as many as 5 million uncovered children. Many of these children are poor, and live in the inner city. This new capped grant

program will help strengthen efforts to cover uninsured children that are already underway in many states.

—Preserving food stamp benefits for people willing to work. While maintaining the work requirements set out by the welfare reform bill, this can supply funding for an additional 190,000 slots to provide the help many inner-city residents need on the road to self-sufficiency.

—Restoring disability and health benefits for legal immigrants, and restoring Medicaid coverage for the children of poor legal immigrants.

—Doubling funding to help schools bring the Internet to the inner city. Many suburban schools today are moving to new technology without our assistance. But many urban schools need our help—particularly at a time when computer skills are becoming more necessary to find a job. This will ensure that the information superhighway does not bypass urban America.

All told, while addressing the full range of HUD's activities, this agreement can help meet the needs of America's cities. We have agreed in principle upon a budget that can help our families prosper and grow. But now, Mr. Chairman, this Subcommittee moves to the very difficult task of matching principle with reality, of matching budget outlays with budget authority, and filling in the details of this budget.

We look forward to working with you closely on this task in the days to come. Today, as we move to the next stage, allow me to expand on this budget and focus attention on four pressing and immediate challenges we at HUD expect to face in the months to come: (1) renewing Section 8 contracts; (2) expanding housing opportunities for all Americans; (3) making welfare reform work; and (4) restoring the public's trust in the Department.

Let me discuss each one of these challenges in more detail and describe HUD's response to them—not just in the short-term, but in the long-term—and the long-term structural changes we are proposing to make HUD work even better.

RENEWING SECTION 8 CONTRACTS

As this Subcommittee knows, a record number of Section 8 contracts are beginning to expire, with contracts on 1.8 million units expiring in fiscal year 1998. To put that in perspective: more contracts will expire in the next year than in the previous five years combined. Renewing these contracts was the absolute highest priority for me in presenting my budget.

About 1.4 million of the Section 8 contracts expiring in 1998 are tenant-based vouchers and certificates. Another 400,000 of the expiring contracts are project-based. Of this number, some 167,000 units are in markets where the government rate is sometimes twice as high as the market rate. I will discuss this in more detail later.

American communities should not have to bear the high social costs, and should not have to face the potential social chaos, of an unprecedented explosion of homelessness that would surely arise if we did not fully renew these contracts. None of us would advocate a policy guaranteed to push hundreds of thousands of elderly, children, and disabled Americans into homeless shelters and onto the streets of our communities.

That is why I believe we must renew these contracts. And that is why the budget agreement—which provides for sufficient resources to renew all expiring contracts through 2002—represents such a great bi-partisan accomplishment.

While the resources in the budget agreement are adequate to renew all expiring contracts, we must strive to protect the remainder of HUD's budget from the intense pressure caused by a limited pool of domestic discretionary resources. We cannot tolerate a budget that allows all contracts to be renewed while at the same time making severe cuts in essential HUD programs like CDBG, public housing operating support, homeless assistance, and many others.

This kind of "cut-and-shift" approach—robbing Peter to pay Paul—would be short-sighted and self-defeating. While such an approach would avert the Section 8 crisis, it would simultaneously trigger other community crises in homelessness and affordable housing.

HUD's solution to the renewal crisis calls for both tough reforms to control outlays and new spending authority. Our fiscal year 1998 budget provided a 30 percent increase in HUD's budget authority—a $5.6 billion increase in new budget authority—virtually all of which would be used to renew the expiring Section 8 contracts. The budget also proposes program reforms that would save substantial Section 8 outlays in both fiscal year 1998 and over the next five years. In particular, our approach stresses tough savings reforms:

—Increase the number of working families to fill vacant units.

—Limit the annual rent increases for project-based units.
—Maintain $25 minimum rents in public and assisted housing.
—Reduce administrative fees for public housing authorities; and most importantly.
—End excessive subsidies to landlords by restructuring high-cost assistance contracts.

This last point is especially crucial. In markets across America, the rents government pays are out of whack with market rents.

A 1994 study by the General Accounting Office found numerous examples. In Las Vegas, for example, the market rate was $380, the government paid $820. In Chicago, the market rate was $435, the government paid $849. In Washington, D.C., the market rate was $499, government paid $734.

Why? Because twenty years ago, when we first offered contracts to give owners incentives to build affordable housing in the inner city, there were built-in escalators in the contracts. Since many of the contracts lasted 20 years, it prevented us from cutting the rents. But now that many of the contracts are expiring, we're caught in a catch-22. If we just cut rents, many owners will go into default. Since the properties are FHA-insured, taxpayers will get stuck with the bill. At the social level, such defaults could lead to an explosion in homelessness.

As I noted earlier, in 1998 alone, contracts will come due on approximately 167,000 units with over-market rents. Over the next 12 years, some 500,000 FHA-insured units will come due. We are determined to reduce these out-of-whack rents and reduce the cost to taxpayers—but to do it in a way that protects families, preserves affordable housing, and avoids massive defaults and foreclosures.

Over the past six months, HUD has worked closely with the Department of Treasury to craft a sensible solution to this problem. Our solution, which we call Housing 2020, will reduce rents, reduce FHA-insured mortgages, and give owners more time to pay off their tax burden. In return, we save taxpayers money, protect families, and ensure affordable housing well into the next century.

Over the next five years, our Housing 2020 proposal will save over $1.4 billion while maintaining more than 500,000 units for 850,000 people. We believe this is a good starting point for a constructive, bipartisan dialogue with Congress about finding a long-term solution to this structural problem of the Section 8 program. I look forward to working with you, Mr. Chairman, and the members of this Subcommittee, to enact a permanent solution to this inventory this year.

Mr. Chairman, you have also raised questions about the issue of the Section 8 contract reserves. As you know, I have made the issue of enhancing the management reform of the Department a critical priority. This focus has already yielded significant benefits.

Last fall, we completed the first phase of auditing housing authority Section 8 project reserve accounts. This effort yielded $1.6 billion in excess Section 8 project reserves. We promptly reported the existence of these excess reserves to your committee in our operating plan, and committed to using them to reduce our request for fiscal year 1998 appropriations for contract renewals. At that time, and when we introduced our budget earlier this year, we explained that this was the first result of an ongoing effort to review PHA reserve levels.

Last month, we reported the existence of additional Section 8 project reserves. The Department is continuing to review every aspect of its budgeting for Section 8 renewals. We have asked Price Waterhouse to review these estimates, and those efforts are ongoing. We are also continuing to review issues that GAO has raised with respect to the per-unit costs of Section 8 contracts. And, we have identified imbalances within the project-based Section 8 program, where many projects have insufficient funding to reach the end of the contract term, while other contracts are expiring with budget authority remaining on the contracts. As more information becomes available, we will keep the Committee fully informed.

The Section 8 program was forged in a bipartisan spirit and it must be fixed with the same bipartisan spirit. Democratic and Republican Administrations have been working for years to put in place financial systems to enhance the management of the Section 8 accounts. I pledge to you to continue to improve these systems and look forward to working with this Committee and this Congress to do so.

EXPANDING HOUSING OPPORTUNITIES FOR ALL AMERICANS

While solving the Section 8 crisis must be HUD's first priority, our second challenge must be to expand affordable housing opportunities for those not currently served. Our 1998 budget does that.

HUD's budget asks for 50,000 additional Section 8 certificates, and links them to welfare reform. It moves to boost homeownership rates to an all-time high. It contin-

ues to transform public housing and help the homeless work toward self-sufficiency. It will keep building on the success of the HOME Program. And, it provides more money for our Fair Housing Initiatives.

As you know, our requests for additional Section 8 certificates for fiscal year 1996 and fiscal year 1997 were not funded.

In the 1998 budget, our request is particularly compelling because the 50,000 additional Section 8 certificates we're asking for will help move people from welfare to work. We are targeting these certificates to help welfare recipients move into jobs. With this targeting, we feel we have found common ground with Congress to provide these certificates.

A key part of our strategy to expand housing opportunities will be to build on HUD's great success in expanding homeownership.

During President Clinton's first term, the homeownership rate surged to 65.4 percent. There are two reasons why this happened. First, the economy is strong. Together, we've created more than 12 million new jobs, and interest rates are low—making it easier than ever to buy a home. Second, at the President's request, HUD helped organize the National Partners in Homeownership, an unprecedented alliance of 58 housing industry organizations dedicated to adding eight million new homeowners by the end of the year 2000. These partners have worked together marvelously to lower barriers to owning a home. They deserve a great deal of credit and our continuing respect.

The success of the National Partners in Homeownership has encouraged housing industry leaders in cities and counties across America to form local affiliates that reflect the goals and values of the National organization. In 1998, we will continue to promote these local affiliates, adding 75 local homeownership partnerships for a total of 225.

We will continue reforms at FHA that allow that vital agency to help even more of the first-time buyers and minorities they serve better than anybody else in the consumer mortgage field. With these reforms, 75 percent of FHA's mortgage business, excluding refinancings, will go to first-time home buyers in 1998. When President Clinton took office, first-time buyers were just 65 percent of FHA's new mortgage business. These reforms will help almost 500,000 families become new homeowners.

Additionally, we will fund Ginnie Mae's efforts to stimulate $1 billion in mortgage lending to inner cities, and we will provide $50 million to help cities reclaim abandoned urban land by building homeownership zones—suburban-style developments of single-family homes to stabilize and reclaim neighborhoods in the shadows of downtown.

And we are making sure that Americans have full access to the homes they want by increasing our budget for Fair Housing by $9 million—a 30 percent increase. These funds will increase enforcement and compliance activities and build the America we all want, a land where opportunity is available to all who seek it—no exceptions.

We will also expand affordable housing by building on the transformation of public housing. I am encouraged by the progress that both the House and Senate are making to enact an authorizing bill which cement the transformation we have begun.

Even as we undertake to replace the 100,000 worst public housing units in America, we must maintain sufficient operating and capital funds for the 3,300 mostly well-performing public housing authorities across America.

In 1998, we request $2.9 billion in public housing operating subsidies and $2.5 billion in capital funds, equal to the fiscal year 1997 levels. These numbers, however, actually reflect an $85 million increase in operating subsidies and a $162 million increase in capital funds to public housing authorities, since funds that were once included for Indian housing were separated out and put into their new housing block grant. These funds are needed to keep sound buildings in good shape—preventing them from deteriorating and needing to be replaced.

HUD is beginning the process of shifting our focus in public housing away from demolition to replacement housing. The 1998 budget intensifies that move. For HOPE VI, the program that spearheads HUD's public housing renovation effort, we are asking for $524 million in 1998—$103 million for replacement vouchers and $421 million for demolition and revitalization activities.

Our goals are to increase the number of good quality units and to expand housing choices. After all 100,000 demolitions are completed and all the new units built, we will have 100,000 expanded housing opportunities. Just over 40,000 of these are new opportunities (vouchers and new units), since about 40 percent of the units in the buildings that are being torn down are vacant.

For HUD's homeless programs, our proposed budget—$823 million, the same as last year—will allow HUD to move forward with our "Continuum of Care" strategy, a strategy that helps move people off the streets toward self-sufficiency.

This is the right thing to do. A study released in December by Columbia University found that in 1995 as many as 14 times more homeless people were served by HUD programs as in 1992—this during a period when federal funds only doubled. Communities are using HUD homeless funds to leverage substantial local matching contributions. We are getting funds out to every state across the nation, and we are serving more homeless people with disabilities.

Shortly, we will introduce our homeless reform bill, which will permanently consolidate our seven separate homeless programs into a single performance-based program.

Our investment in helping the homeless work toward independence and self-sufficiency is clearly the right thing to do.

MAKING WELFARE REFORM WORK

Our third major challenge, as I mentioned earlier, is our newest one. We now have to respond to a new environment created by welfare reform.

Under President Clinton's leadership, the American economy has added more than 12 million new jobs in the last four years. Now he is committed to moving another two million people from welfare to work by the year 2000.

HUD's fiscal year 1998 budget recognizes that the Department has a special ability to help welfare reform succeed. The people HUD serves will be among the people who are most dramatically affected by the changes that lie ahead.

Over the past four years, we have learned that housing is the foundation of progress and stability, but housing alone does not develop a community: jobs are the essential element needed to drive people and families forward to self-sufficiency.

To fulfill our core mission of revitalizing America's communities, we must work to do two key things: we must create housing, and we must create jobs. HUD's economic development programs can play a vital role in bringing opportunity to communities all over America in places where there are not enough jobs.

The 1998 budget asks for $100 million to fund a second round of Empowerment Zones and Enterprise Communities. These are designed to encourage job creation and attract businesses to high-poverty areas where many welfare recipients live. Communities use these funds to leverage billions of dollars of private investment. After just two years of a 10-year program, we have seen more than $2.6 billion in private investment leveraged nationwide. This is one of the key component's of the President s strategy to move people from welfare to work.

In addition, the HUD budget asks for $100 million over the next four years—including $25 million for 1998—to clean up and redevelop abandoned Brownfields.

HUD is asking for stable funding for CDBG at $4.6 billion and $1.3 billion in Section 108 loan guarantee authority. Our $50 million request for the Economic Development Initiative will help create jobs and leverage private investment.

We will also help welfare recipients transition to work by providing and leveraging service for them. Our budget asks for $20 million in counseling assistance to help Section 8 recipients—who are welfare recipients—find rental homes that are new jobs and needed support services. It asks for $30 million for Youthbuild, a program that gives young high school dropouts a chance to learn, earn, and do good for their community, all at the same time. Youthbuild places these disadvantaged youngsters into apprenticeships that teach them valuable construction skills while they work to renovate affordable housing.

The budget also requests $10 million to expand our Bridges to Work demonstration, which pays for transportation and support services to link central city residents to the suburbs, where the jobs often are.

And remember: the 50,000 new Section 8 housing certificates we're requesting—at a cost of $305 million—will be targeted to help welfare recipients move into the workforce.

These resources will help welfare recipients sign up for the best social program that has ever been invented—a job!

RESTORING THE PUBLIC'S TRUST IN THE DEPARTMENT

At HUD, we are prepared to meet the Section 8 crisis, create affordable housing, and move people from welfare to work. But we recognize that our success in meeting these three challenges will largely depend on our success in meeting a fourth challenge—restoring the public's trust in HUD.

We must continue to demand accountability, not just from those who benefit from HUD—tenants and landlords alike—but from ourselves as well. We've made a lot of progress the past four years, but much work remains to be done.

The public must have confidence that our partners at the local level are spending HUD funds wisely, honestly, and efficiently. We are well underway in our efforts to make 1997 the year we crack down on waste, fraud, and abuse.

Seven weeks ago, HUD and Attorney General Janet Reno announced a new joint "Get Tough" campaign to crack down on bad landlords who were taking taxpayer dollars while forcing their tenants to live in slums. In 1997, we have taken action against more than 39 bad landlords—compared to 22 in all of 1996. Just last week, we took action against one of America's most notorious slumlords—who accepts more than $70 million in federal funds every year.

We will continue to crack down on bad landlords with a $50 million effort to remove and punish those who run troubled HUD-assisted properties. We will clean up troubled public housing authorities by investing another $45 million for technical assistance and expertise that they so badly need. These funds will also help smaller housing authorities that are having problems.

We will also continue to target scam artists who take advantage of people who participate in HUD activities. Last year, we started a highly successful program intended to help keep elderly homeowners in their homes. Our "Reverse Mortgage" program is targeted to senior citizens who are house-rich but cash-poor, people who have equity in their homes, but not enough money to pay their bills. This program allows homeowners age 62 and older to borrow against the value of their home. About 125 lenders participate in this program.

We were so successful that we spawned a handful of scam artists. For the same information HUD provided for free, some companies were charging up to $8,000 in fees. In March, we issued a letter to all FHA-approved lenders to stop doing business with these companies. Last month, I joined many of you here on the Hill to introduce legislation to stop it. Together, we have forced these companies to retreat.

Our budget is also working to clean crime, drugs, and gangs out of public housing. HUD is asking to double funding for Operation Safe Home to $20 million. This highly effective crime-fighting partnership in public housing is led by HUD, working together with the FBI, DEA, and other state and local law enforcement to prosecute both violent crime and white-collar fraud.

The HUD budget also requests $290 million in Drug Elimination grants for public housing to fight drug traffickers and violence, and to fund programs that give children growing up an alternative to the crime they see every day.

But demanding accountability from others is just half of the equation. For housing and economic development to work better, HUD must work better as well. We are determined to get our own house in order. As I said earlier, government must find ways to be smaller and smarter. We must remain committed to worthwhile goals but not to failed means. We must be willing to admit that some programs do not work. We must recognize the right roles for the government and private sector.

HUD needs to continue to reinvent and adopt a private-sector mentality. To that end, we will be targeting efforts to show that "HUD Means Business." The agency will borrow—for a limited time—business executives and experts from leading companies to help us implement the financial and management reforms we must take.

I am proud to continue the task that Henry Cisneros began four year ago—bringing this agency back from the brink of public disrepute by modernizing and preparing it for a new century. And, I also recognize that while genuine progress has been made in the past four years—progress acknowledged by a number of outside experts—much remains to be done.

Let me note a few of the areas that most concern me:

—HUD continues to be listed as a high-risk agency by the General Accounting Office. While the GAO acknowledges progress—citing "substantial efforts over the past two years"—they are right to say that a lot more must be done. In short, HUD's public purpose is too vital—especially in this time of sweeping economic and social transformation as we move from an industrial to an information age—to compromised in any way by waste, fraud, abuse, and poor management. We must go further.

—HUD continues to have problems with its financial control and management systems. While we've made improvements in the past few years, these changes are not quite sufficient if we are going to make sure this agency effectively and efficiently serves the nation.

—While HUD is right on target for reducing the size of its staff—from 13,200 in 1992 to 10,400 today and ultimately down to 7,500 in 2000—we must, in the next few years, bring our long-term mission in line with our reduced and dwindling resources.

As I pledged in my confirmation testimony a few months ago, management reform is a top priority for me. It is perhaps a thankless task, but I believe the moment is ripe—as the most recent GAO report makes clear—for a close collaboration between HUD and Congress to clean up the agency for the long-run. I will be introducing a comprehensive management reform plan to address these long-term deficiencies in the next few weeks.

CONCLUSION

We have made a lot of progress together the past 4 years, but we have a long way to go. The traditional challenges faced by HUD—providing affordable housing, increasing homeownership, promoting fair housing, reducing homelessness, creating jobs, and helping our communities develop and grow—are being challenged like never before by shrinking Federal resources and the reality of moving millions of Americans from welfare to work.

The historic balanced budget agreement provides a framework to meet these challenges in a way that is good for our cities and good for America. But we need to do more. We must continue to streamline, reinvent, and crack down on waste, fraud, and abuse wherever possible. We must be willing to admit that some programs have failed. We must reach out to the private sector and nonprofit community to meet our greatest challenges. We must trust our local communities to know best. And, we must work together to prove to the American people—not only that HUD means business—but we can meet these challenges in a creative, competent, common-sense way.

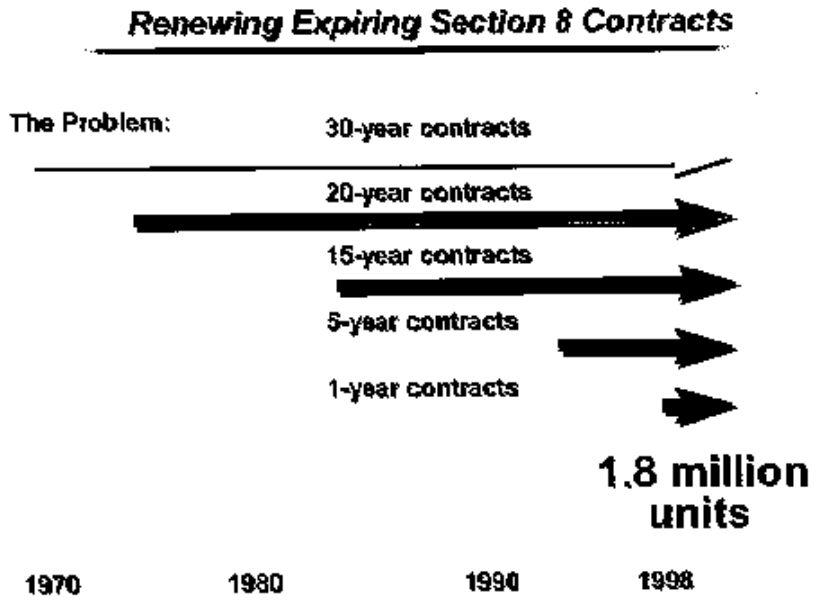
Over the past 4 years, HUD and this Committee have worked in a positive way to meet these challenges. I look forward to working with all of you in the months to come to build on that relationship and meet our housing and economic development needs as we head into a new century.

Thank you.

---

*Fiscal Year 1998 Priorities*

I. Renewing expiring section 8 contracts.
II. Expanding affordable housing opportunities.
III. Making welfare reform work.
IV. Restoring the Public's trust in the Department.



*The Problem Explodes in 1998*

[In millions]

| *Fiscal year* | *Americans at risk* |
|---|---|
| 1997 | 1.5 |
| 1998 | 4.4 |
| 1999 | 5.2 |
| 2000 | 6.0 |
| 2001 | 6.2 |
| 2002 | 6.4 |

*Reforms=Savings*

Ending excessive subsidies to landlords.
Increasing number of working families to fill vacant units.
Limiting annual adjustment factors for project-based units.
Maintaining $25 minimum rents.
Reducing administrative funds to public housing authorities to encourage efficiency.
Other savings.

*Expanding Affordable Housing Opportunities*

Providing 50,000 new housing certificates.
Increasing homeownership.
Helping more homeless move from the streets to self-sufficiency.
Continuing to transform public housing.
Continuing the success of the HOME Program.
Ensuring fair housing.

*Making Welfare Reform Work*

$100 million: Empowerment zones and enterprise communities ROUND II (toward a new $2 billion Federal effort).
$25 million: Redeveloping brownfields ($100 million over 4 years).
$4.6 billion: Community Development Block Grants (CDBG).
$50 million: Economic development initiative (EDI).
$1.3 billion: Section 108 loan guarantees.
$30 million: Youthbuild.
$10 million: Bridges to Work.
$305 million: 50,000 new housing certificates.

*Restoring the Publics Trust in the Department*

Cracking down on bad landlords.
Cleaning up troubled housing authorities.
Clearing out drugs, gangs and crime:
—Drug elimination grants
—Operation Safe Home
—One-Strike and You're Out
—Reverse mortgages

*HUD Continues to Downsize*

| *Fiscal year* | *FTE's* |
|---|---|
| 1992 | 13,194 |
| 1997 | 10,447 |
| 2000 | 7,500 |

Note: Totals do not include Inspector General, Working Capital Fund, and OFHEO.

Senator BOND. Thank you, Mr. Secretary. We are delighted you are utilizing some of the tools that we have given you. The mark-to-market demonstration, you were not here at the time, was initiated here and this committee came up with the demonstration funds. We conferred with Mr. Retsinas and others. We did not include the tax changes because we did not have support for them. While this committee has been known to authorize a little bit in an appropriations bill, we have not yet attempted passing tax legislation here. That might be a bit much.

MANAGEMENT TRANSITION PLAN

You mentioned addressing unmet needs for adding 50,000 units. I would note that we do have the HOPE VI Program which does provide some additional needs. We believe HUD's existing programs already are adding units successfully. We believe that expanding home ownership opportunities and the housing needs is being best accomplished by State and local partnerships with HOME, through capacity building, through the Habitat for Humanity, and many other programs that we think are doing an excellent job.

I touched on, and you have mentioned, the problems that HUD faces, the high-risk management problems. You have indicated that this is job one, Mr. Secretary. For the record, I would appreciate it if you would set out for this committee and for the authorizing committees some benchmarks and timeframes, what is it that you are going to do, when are you going to get it done, how do we know it is done, what kinds of steps will be taken to meet the criticisms and the significant questions raised by the GAO, the inspector general, and others. I agree with you, this has to be job one. We would like to know how we can tell it is moving forward. As I said, we have seen a lot of motion and we have spent a lot of time at these hearings talking about reforming HUD. You come in with a fresh slate, and we would like to see the reforms made and the steps to sound financial and management controls taken by the Department.

Secretary CUOMO. Mr. Chairman, it would be my pleasure to go back and do a little quick work and sketch out a management transition plan for this committee. I think you can see where the Department is going if you look at the legislative agenda we have put forward. We put forth a public housing management reform bill, a housing 2020 bill, which is the section 8 management reform bill. We are going to do a homeless bill in response to the House bill. That will change some policy but will be a management reform bill. We have very real substantive program reforms in each one of those bills which I believe will bring a new level of management efficiency to those program operations.

On top of that, we have to make sure our own house works. We have some very real problems of financial management systems in the Department—94 financial management systems that have never been reconciled. There is no one, integrated financial management system. You cannot go anywhere and push one button and get the read out for the entire Department. I think we have been experiencing some of that over the past several weeks. So we have the program reforms, we also have the internal organizational reforms. We have an aggressive agenda on both, and I can provide the committee with the time line and benchmarks so that we can see just how we are making progress.

Senator BOND. That would be very helpful. You talked about some of the public housing reforms. Frankly, we have done that in authorizing legislation. We have given HUD various authority for dealing with underperforming or misperforming public housing agencies. I am sure that there are many things that can be done to improve the programs, but we are not looking at things that pri-

marily require outside legislation. We are looking at management steps and management reform to make HUD programs work.

And to be quite honest with you, it is not just this committee that ought to be interested in the progress. You need to have your own game plan and we want to see what your game plan is. Also, I do not want something you just sketch out for us. I want to see the standards, the goals, the objectives that you establish for the Department under which you can tell and we can tell whether the Department has made the improvements and reforms that are needed.

SECTION 8 CONTRACT RENEWAL RESERVES

Let me address a particularly relevant question about financial management. I have already laid out the problem with section 8 and, with the ranking member, I have written letters to the Budget and Appropriations Committee chairs and ranking members telling them that we have a real crisis in the Section 8 Program and that we are going to need additional budget authority to renew expiring section 8 contracts. But as we have discussed at length, HUD, on April 17, found about $5.8 billion in unobligated section 8 contract reserves. You advised the chairman in the House of that. A good portion of that was immediately grabbed up by the Appropriations Committee to fund FEMA, to fund CDBG contracts, and I have got a problem with that.

When we have tried to make some inquiries as to where those reserves are and it is clear that those reserves are held by the public housing authorities. Some 2,500 public housing authorities that handle section 8 have section 8 reserves of some kind. My sense is that even though you contracted with Price Waterhouse to do a study, you do not know where those reserves are or the amount of the reserves because we have been making calls to public housing authorities. In some cases, the public housing authorities do not know the status of their section 8 reserves. A number of public housing authorities have advised my staff that there are no rules and no regulations as to the amount of section 8 reserves that they can hold. Some of them say they do not have any reserves. On the other hand, the Kansas City housing authority advises that it has approximately 5 months worth of section 8 reserves on hand.

I would like to know if you know specifically by PHA where section 8 reserves are, how much they are, and how in the dickens are you going to recapture them. We have just passed a measure spending all those reserves and, I will be honest with you, the more I look into it, I will be hard pressed to say how we are going to recapture those and how we are going to put them back into the bank so we can spend them on FEMA and CDBG in the Dakotas. Where are they? How much are they? And how do we get them back?

GAO ESTIMATE ON SECTION 8 RESERVES

Secretary CUOMO. Mr. Chairman, let me take a moment on this, because I want to be clear. You have made some statements, and I just want to make sure that we are communicating clearly on this. First, I did not mean to imply that we are going to embark on a management plan for the Department in response to this com-

mittee. During the confirmation hearings, and at one of the briefings you attended with Senator Mikulski, it was made clear to me that job one had to be a management reform plan, not just for this committee but for every committee, and frankly for myself more than anyone else. My priority as Secretary is to make this Department work better than it now works, period. So it was not in response to this request.

On the reserves, the chronology is important here. The Department said nothing about any reserves. We did not raise this issue. In the House, they moved the supplemental bill and said they were going to take a certain amount of reserves which were identified by GAO. The number they had I believe was $3.6 billion, and they were going to take this $3.6 billion from the reserves. We had said nothing about the reserves. They then called the Department and said how much do you have in reserves, because we are taking $3.6 billion. GAO says you may have about $5 billion. Please give us a number. I was reluctant to provide a number for the very reasons that we discussed. We have some financial systems that are coming on line and they are providing numbers. I wanted to make sure before a number left the Department that it was the right number, that it was a vetted number, that I had and somebody's signature on the number, frankly. But as the supplemental was moving through the House, they said we are taking $3.6 billion because GAO said you have up to $5 billion. What is your number, answer please immediately.

We were reticent. There was a delay. Frankly, the House did not like the delay. We provided, after that period of time, the best estimate that we had at that time, which was about the $5.8 billion which you refer to, Mr. Chairman. But we did not prompt this conversation. We did not volunteer the reserves for supplemental. It did not happen that way.

If anything happened, the criticism of the Department was that we were lax in not responding more quickly to the questions of how much money were in the reserves. That is factually how that happened.

SECTION 8 RESERVES AND THE SUPPLEMENTAL BILL

As far as the reserves in general, there are two issues on the reserves that I would bring to the attention of this committee. No. 1 is again a housekeeping issue and how our financial management systems work, how accurate the data is when it came on line. As the chairman pointed out, we do have Price Waterhouse who is auditing this number, and until I have an audited number, frankly, Mr. Chairman, I am somewhat reluctant to say here is a number, put a pin in it and I vouch for the number.

Senator BOND. Well, I would urge you not to do it until we know where they are and how we get them back, and that really troubles me. We passed a great big bill, promised that we would fund it from these reserves, and it is a really speculative operation at this point.

Secretary CUOMO. But again, Mr. Chairman, the supplemental was not premised upon any representation we made at the Department. It was premised upon a GAO representation that we were asked to backup. That is how that happened. And when you asked

me for the number I said again please let me get an audited number, but this is the range, if we have to have a range, a number today, and you push me, which they did. I said this is about the range, about $5.8 billion. I was also quick to say we are bringing in Price Waterhouse and they will audit it, and we have housekeeping work to do on this financial management system, and this is not found money. These are reserves. You can have as little or as much as you want, depending on what policy calls you are willing to make.

Do you want a 6-month reserve or a 4-month reserve or a 2-month reserve? What do you want to set-aside for welfare reform? What assumption do you want to make about the economy next year? What does your crystal ball say tenant incomes will be? Depending on all those calculations, you can keep a larger or a smaller reserve.

This is a program that needs a reserve, make no doubt. There are a lot of assumptions in there. The economy might change, tenant incomes might change, welfare reform might have an impact, public housing authorities may have put more certificates and vouchers out there than we know about.

NEED FOR VARYING AMOUNTS OF SECTION 8 RESERVES

Senator MIKULSKI. Mr. Secretary, would you yield just a second? Mr. Chairman, maybe I can offer first of all a sense about why reserves were needed, and hopefully now we can get to the bottom of something. When I chaired the committee and Jack Kemp was Secretary, he came in one day ready for a hearing and we thought we needed something, I will say $1 billion. I am going to make up the numbers, I do not have my accurate records here for section 8. As we then moved to markup in July, Mr. Kemp, but really he sent Mr. Dellibovi, said he needed something like $4 billion more, and the discrepancy between what we were told at a hearing like this and then moving to markup was about $3 billion. Then Mr. Kemp and Mr. Dellibovi, the Budget Officer from HUD, we all huddled to see what we could do.

What came out of that was there were no data management systems standing sentry or monitoring the HUD contracts about what was due when and how much would be due, when we would know it would be due. We held a ponderous, laborious, technical, dull, but nevertheless important hearing on that information gap. We were promised then by Mr. Kemp, we would continue to be promised by the Cisneros administration that they would be able to have the data systems in place, and I believe at that time Mr. Kemp and Mr. Dellibovi, anticipating that we would reach the spikes, began to build a reserve. It was not to hide money. Maybe it was not as easily visible, but we knew we would be coming to like a section 8 Armageddon.

Now, what I do not know, Mr. Chairman, is whether that money was set aside, which would be a bonafide purpose even though we did not know about it, but the purpose was bonafide, and No. 2, if those guys ever put those management systems in place. But that is kind of where it first erupted, and I must say in a rather volcanic situation, quite frankly, between Mr. Kemp and myself,

and then Mr. Dellibovi, obviously it is the Italian diplomacy skills associated with the Vatican and the Medicis—[Laughter.]

We tried to work this through. But that was the history. You see a lot of old hands in the Department—but they promised two things. No. 1, the information systems, and No. 2, that they would have a way of dealing with it. I have a feeling that is where some of the money came from. I do not know if you were here——

Senator BOND. Senator Mikulski, I cannot believe that an excited, heated conference between you and Secretary Kemp was dull. [Laughter.]

Somehow that defines logic. But you have brought out this problem.

Senator MIKULSKI. I think it went something like you need what, and then there were other comments. [Laughter.]

Senator BOND. Too bad we did not videotape that one. But seriously, there is a serious question about what rules, and talking to people we cannot find that there are any specific rules from HUD concerning the use of section 8, including the retention of section 8 reserves. What worries me is the Senate has gone on record, as has the House, in recapturing some of this cloud bank of section 8 that is somewhere in the stratosphere.

My time is up, and I apologize to my colleagues. But where is it, how much is it, and how do you propose to get it back?

DEPARTMENTAL POLICY ON SECTION 8 RESERVES

Secretary CUOMO. Mr. Chairman, that is the question. Senator Mikulski's recollection is the same recollection as has been shared with me at the Department. The reserves actually existed from the beginning of the program, but it was heightened with the interchange between Senator Mikulski and Secretary Kemp. People were very aware of the necessity to have this program operated on means where they did not have a shortfall, which meant the reserves became more important as they went forward.

The Department has a policy on reserves. The PHA is supposed to have 6 months in reserves, no more than 6 months. Now, some PHA's have more, some PHA's have less. We are actually in the process, Mr. Chairman, of going to all 3,400 PHA's and reconciling how much they have in the accounts. We have the field offices all across the country going through the books with those local PHA's. But the chairman's caution that there may be a level of imprecision here I think is a good caution, and that is why I was reluctant to come up with any finite number. We have ranges, which I am more comfortable with, and again we have Price Waterhouse auditing the numbers so we can come up with a more solid number.

The second issue then is what policy do you choose to set about the reserves. Is 6 months the right amount of time, should it be greater, should it be lower? And depending on what decisions you make, that reserve can be more or it can be less. The smaller the reserve, the more you have for the renewals, and in my opinion that was the tradeoff. This money was not supposed to go to a supplemental to do floods. As worthy a cause as that is, it did not make sense to me to displace section 8 people so you could house people displaced by a flood. We have to do both, but do not help the flood at the cost of the Section 8 Program. That is what we said

in a letter to the House. But that reserve can be more, can be less, depending upon the policy assumptions. We then wanted to take that money from the reserves and use it against the renewals.

RECAPTURING SECTION 8 RESERVES

Senator BOND. With apologies to my colleagues, assuming that this measure passes both Houses and the conference and it is signed by the President, how do you get the money back? What would you do?

Secretary CUOMO. We are proposing in our legislative package a piece of legislation that would allow us to recapture and reallocate.

Senator BOND. You cannot do it without legislation? You do not have the authority to recapture it now?

Secretary CUOMO. Our counsel says we cannot reallocate without the legislation, and we would need to reallocate so we could distribute the funding, and that is why we put it in the legislative package. But we would have to set the appropriate reserve level. Again, we have an aggressive proposal that says 2 months, and then recapture and reallocate against that.

Senator BOND. If you are telling us, Mr. Secretary, that we are basing our supplemental on the recapture of funds that cannot be recaptured, perhaps somehow in the conference, at some point we need to add the authorizing legislation. Because from what you have just said, if I understand it correctly, we have used as an offset something that you cannot do under existing authority.

Secretary CUOMO. We cannot reallocate.

Senator BOND. Well, what is it that you need to—how do you get the money back? If there is a rescission included in the supplemental, how is that effectuated?

Secretary CUOMO. We believe we can recapture the money, Mr. Chairman, which means we can get it back to the Department. We can have the money in hand. We could not reallocate it among the different public housing authorities, but we could recapture it.

Senator BOND. But you can recapture it?

Secretary CUOMO. Yes.

Senator BOND. My apologies, Senator Mikulski. Senator Mikulski, if you do not mind, Senator Leahy has to go back to chemical weapons, and I thought that maybe we would defer to him.

Senator MIKULSKI. First of all, I do know what Senator Leahy is working on, and he is a great colleague. I would like very much for him to go ahead and then I will wait my turn. I just want to make Senator Leahy aware while he was waiting patiently during this conversation——

Senator LEAHY. I found this more exciting than chemical weapons. [Laughter.]

Senator MIKULSKI. The reason this conversation is so important is that if we do not deal with the unexpired section 8 contracts it could sink or eclipse the entire HUD budget. I know, Senator Leahy, you have been a champion on housing for the elderly, the homeless, that you want to pursue. And this is why—this is so technical, but it really could eclipse every good effort that we want to take. I will be happy to wait my turn.

Senator LEAHY. I thank both of you very much. I found the discussion you were just having to be extremely important on this

whole issue. Of course, I always listen when they talk about Machiavellian or Medici-type concepts, and I have always thought what great things the Italians have given to politics of our country. When I used to talk to the Secretary I only talked about my mother's side of the family. If I were talking to his spouse I would probably talk about my father's side of the family. [Laughter.]

HOMELESS ASSISTANCE FOR SMALLER STATES

I have learned to cover every base I possibly can, Mr. Chairman. Earlier when I spoke I talked about the fact that even in a small State like Vermont, you have 6,000 people every year that are going to be homeless at some point, that are going to need a warm or dry or safe place to sleep. And that is in a State where it can get 25 to 30 below zero during the wintertime and even our summers are very short. Those numbers point out the necessity of these homeless programs.

Last month those who provide these programs learned that HUD will pay only 50 percent of the cost to renew their service-oriented homeless assistance programs this year. It is ironic because one of the Vermont groups affected by that reduction only days before had received a Best Practices Award from HUD for its excellent homeless assistance program. You pat them on the back with one hand, and take the wallet out of their pocket with the other hand. Because these programs, even though they have enormous support from the community, even though people contribute to it in fundraisers, the program still needs HUD funding to survive.

The 1997 homeless grant competition does offer some flexibility in determining State need for homeless assistance. Is this flexibility available to be sure that States like Vermont, that have significant project renewals, can receive the funding they need for homeless assistance?

Secretary CUOMO. Thank you, Senator. First, let me take the opportunity, if I might, to thank the Senator for all his good work, especially on the homeless programs. His support over the past 4 years has really allowed the Department to do the good things that we have done, especially on the homeless side, and we have. Even with the budget increase, when we came in, the homeless budget was $300 million. Today it is about $823 million. When we came in we served about 20,000 homeless. Today we serve as many as 280,000 homeless. So we really have made progress on that front, and the Senator has been instrumental in that.

Senator, on the question you pose about the renewal needs, it is a very real question and a conundrum indeed. What is happening is the renewals as we go forward, almost reminiscent of the Section 8 Program, the renewals get higher and higher every year on the program. The amount of funding, although it is as high as it is, is insufficient to fund all the renewals at 100 percent and fund new programs.

So what we have said is after the initial grant expires the cap on the renewal will be 50 percent from HUD money, saying to the organizations you have to find the 50 percent somewhere else or the local government would have to subsidize the difference. This is not a new policy, Senator, you should know. This has been in operation for several years. But it is an attempt to get at the issue

that the chairman has been addressing about renewals on these programs escalating, with no way to renew and continue to do business.

But it is not a new policy. We have been using it. I would obviously prefer to be in a position where I could say we could renew everything 100 percent and we can do more good things with more programs. It does not work that way, even on a program where the budget went from $300 million to $823 million.

CONSOLIDATION OF HOMELESS PROGRAMS

Senator LEAHY. I am just wondering, if we were to consolidate homeless programs, what about the idea of at least having a small State floor? There is a certain amount of cost that goes into just administering a program, whether it is a large State or a small State. If you consolidated them, could you get at least a minimum level of funding, for small States? We do this on a lot of other programs, as you know, not just in HUD but in Agriculture, in Energy, and a lot of other areas.

Secretary CUOMO. Senator, we proposed a piece of legislation that would do essentially that. We proposed it last year. We anticipate proposing it this year. The House has put forth a consolidation also of homeless programs this year. But under our proposal it would accomplish essentially what the Senator laid out. We would go to a formula called the ESG, emergency supplemental grant formula, which is a subset of the CDBG formula, and rather than running all of these separate programs we would say to a locality this is the amount of money you might be entitled to, it is not a formula grant but we use a formula to tell the locality what they would be entitled to if they came in with an application that was accepted. That would tell a State like Vermont this is the amount of money that you could get if you win the competition. The fairest formula that we have found is basically the ESG, which is a formula that is in operation now.

PROPOSED RESTRICTION ON HOMELESS SERVICES

Senator LEAHY. The House wants to restrict HUD from paying for programs that provide services for the homeless. Do you have a position on that?

Secretary CUOMO. We are against that, Senator. The House bill would limit initially 30 percent for services, and then it goes down from there. The House bill is trying to end the services portion of the homeless programs and move just to housing. I think it flies in the face of the reality of the homeless problem, which the Senator well knows is multifaceted. You have mental health problems, you have domestic violence problems, you have substance abuse problems. To say all we have to do is provide a person with an apartment and then presto-chango their life will change really is a fundamental misunderstanding of what we are dealing with.

Senator LEAHY. I found that back home these services have been extremely helpful, and I appreciate that. I feel a little bit better than I did when I first came into this hearing. Mr. Chairman and Senator Mikulski, I thank you for your courtesy.

Senator BOND. Thank you very much, Senator Leahy.

Senator Mikulski.

ELDERLY CARE

Senator MIKULSKI. Thank you, Mr. Chairman. Once again, we could spend all of our time talking about the reserves. I want to pursue that for a moment, but there are a couple of other issues I would like to raise. One, I would like to talk about housing for the elderly. I know that what HUD and what we often have to grapple with takes us to the emergency of the week or the emergency of the session. Housing for the elderly is that program that probably enjoys, other than community development block grants and FHA, the largest public support for what HUD does. FHA, CDBG, and housing for the elderly. What I want to outline, Mr. Chairman, is just some things that I would like to discuss with you about that at another time, and put it on your radar screen.

No. 1, we have a good intention that has gone astray, which is having disabled live in the same section 8 facilities as housing for the elderly. We have a generation clash when that occurs because the disabled are often a younger population who want to lead the lifestyle of a younger population, and this has often caused very prickly relationships between the elderly and the disabled. We look forward to hearing from you as we move forth on the appropriation what your ideas are on how we meet our responsibilities to both very deserving constituencies but not have prickly relationships and, therefore, not be able to benefit.

The second is I would really like to, I see you have reverse mortgages on your future way of empowerment. Reverse mortgages are a fantastic idea, but I have been alerted by attorneys general around the country that they are becoming a subject of scam for the elderly, with a lot of fear, a lot of misinformation, and people signing up for a reverse mortgage which has caused them to lose both their home and their income. So please, have your team work with FNMA and other groups to make sure that this is an opportunity and not another scam.

Let me get then to my third point. I am really concerned about the aging in place elderly, and aging in place section 8 facilities. We need to have a plan for that. I was really heartened to see how you want to use section 8 with flexibility. Catholic Charities in Baltimore is developing a conceptual framework to convert some Section 8 to like an assisted living framework. They are fleshing that out, Mr. Secretary, but when they do we would like to be able to arrange what we think is a new idea for discussion with your Department, because I think you share this same idea which is how do we deal with that population and yet deal with it creatively, and not necessarily with new money but with new flexibility and new resourcefulness.

I just wanted to lay those issues out because I know of your longstanding commitment to the elderly, and we want to make sure a good program that is working and enjoys public confidence continues to do the same. Did you want to comment on that?

Secretary CUOMO. Please, Senator. It would be my pleasure to follow up with the Senator or her staff on the so-called mixing of the populations, the elderly and the disabled. I could not agree with the Senator more. It was a nice idea in concept, it worked poorly in practice. They are different populations, different needs.

The Department has published a rule saying how a housing authority, if it chooses, can have separate buildings, elderly and disabled. As the Senator points out, the challenge for us is to make sure we protect the rights of both. We want good housing for the elderly, but we also want good housing for the disabled. It did not work when we put them together. How do we separate them and be fair to both? But we put out a rule that does that. Housing authorities are now coming forward, and that happens to be working well. It was a misstep, however, in policy that I suppose the Department and the Congress made together.

On the reverse mortgages, Senator, just let me affirm your point. It has come to the Department's attention that there has been a high level of fraud in the Reverse Mortgage Program. We took quick action and we are getting the word out. There has been legislation proposed that would make it illegal to charge high fees on the seniors for the Reverse Mortgage Program. I think we have abated that problem.

BROWNFIELDS

Senator MIKULSKI. Mr. Secretary, my time is going to be up and all I did was want to give a conceptual framework if I could, but we will follow through on that. I want to ask, if I could, about your brownfields idea. We will pursue that. I do not mean to cut you off.

Secretary CUOMO. That is fine. We will follow up later on.

Senator MIKULSKI. In terms of right now, I know President Clinton is announcing a brownfields initiative, and neither you nor I are there, but that is OK. We are giving him the opportunity to announce that. I understand you have $25 million as an appropriation request for brownfields. This could be a really big breakthrough for empowerment communities. In my own hometown we estimate that there are over 3,000 acres of land around waterfront that could be claimed through brownfields. Can you tell me what this money is going to buy in terms of services or work with the private sector and how you are coordinating with EPA?

Secretary CUOMO. Yes; I can. I will do it quickly because I am cognizant of the Senator's time. There are about 450,000 brownfields across the country, probably no single greater obstacle to urban recovery than brownfields. We have a joint approach with EPA. Basically EPA will come in and do the cleanup side of the site, the remediation side. We come in and do the reconstruction side. It is an EPA–HUD partnership that will——

Senator MIKULSKI. I do not know what that means. I do not know what reconstruction means.

Secretary CUOMO. Well, redevelopment. For example, say the city of Baltimore says we have 10 acres, it was a former factory, we cannot do anything on it because it is a dirty site. We have a store who would come in and open up a factory shopping outlet if they could get it clean, certified, and if they could get a loan to do the construction. EPA would come in and do the cleanup and remediation side. We could come in and do the economic developmental loan the way we now do under the EDI Program, Economic Development Initiative Program, or CDBG, an economic development loan that would facilitate the reconstruction or development on that site.

Senator MIKULSKI. So this would be different than using what CDBG could have been used for this?

Secretary CUOMO. It is generally the same types of purposes as CDBG, because CDBG is very broad. CDBG can be used for economic development. It is not the normal use of it, but it could be. The EDI Program can be used for economic development, and this $25 million would be used on the same general activities.

IMPLEMENTATION OF NAPA RECOMMENDATIONS

Senator MIKULSKI. Well, we look forward, again, to working with you on this. Mr. Chairman, if I could just have a moment for reform. I know the chairman has talked about reserves, and I will not go over that. As you know, we are deeply concerned about the Armageddon getting ready to hit section 8, and look forward to hearing then how we are able to pursue this particularly since funds have now been moved to the supplemental. What I am interested in, though, is just listening to you now about CDBG. We went through EDI and you listed a whole lot of programs. Do we have too many programs? I mean, this comes back to the NAPA report where we had so many programs, so many line items, and so many minuscule funding around it. The NAPA report was commissioned in 1994, and I believe Secretary Cisneros did it. Could you tell me where you are on implementing the National Association of Public Administrators report, and then also about consolidation, because we can have so many micro tools that we do not solve some of the macro problems, even though you and I know solutions are local.

Secretary CUOMO. Senator, I could not agree with you more. I think we are doing well on the NAPA report, and frankly I think the reforms are even going to be more fundamental than NAPA may have anticipated at the time. But on the NAPA report, we are using that as a benchmark. We have completed about one-half of their recommendations and we are working our way through the list. What NAPA really said, which is really true, and I can tell you just from the first few months in the Secretary's position, there is a mismatch between staff resources and program activity. That mismatch is becoming exaggerated as we have been doing the downsize.

Four years ago we were about 13,000 employees. Four years from now we will be about one-half that. When the work force comes down that much, almost 50 percent, something has to change. You cannot keep doing everything you were doing with one-half the work force. You certainly cannot be doing more than you were doing. You are going to have to allocate that staff with your mission, and putting these small boutique programs together with larger programs that are easier to administer I think is going to be one of the hallmark directions for us, getting the resources to the local communities so they can implement them, not forgetting our monitoring responsibility because the pendulum swings both ways. I do not want to be before this committee and have somebody say well, you gave them $2 million in CDBG, did you watch what they did with it. We have to monitor also.

But let us get it into fewer programs that get the funds to the communities. Let our role be to facilitate that, help advise the community, and secondarily to monitor the communities' use of those

funds. That is the direction we are headed. When I talk about management as job one, the fundamental reconciliation is what do you do as a Department, how many things can you do and do them well. We do a lot of things now. We do not do enough things well.

HOPE VI REFORMS

Senator MIKULSKI. Mr. Chairman, I know my time is up. If I could just ask Mr. Cuomo one last question. How do you want to deal with the reforms of HOPE VI? What are they? I know Senator Shelby is here. I am kind of the founding mother of HOPE VI. It was meant to be an empowerment tool. It has worked in many communities around combining, changing both the housing but also self-sufficiency and community service. Do you want to reform it?

Secretary CUOMO. We have suggestions to reform it, Senator, because we have now been able to see how it works in operation. We have the grants out there. As in any program, you have some outstanding successes.

Senator MIKULSKI. What are the top three reforms?

Secretary CUOMO. I think we have to look at the cost of the units that we are developing. The law allowed HOPE VI units to be higher than what is called total development costs, TDC. It allows HOPE VI to exceed those costs. What did the Congress have in mind when it said you can exceed those costs, how much do we want to pay for a unit? How about those HOPE VI grantees who are not spending the money? At what point do we say enough is enough, we are getting squeezed for money across the board, we do not have enough money for renewals, and take it back? Those would be the top two on HOPE VI. Where is the money committed? How long will you allow it to stay out there?

Senator MIKULSKI. I would add one other. What is the outcome we seek? Is it just to move people from one ZIP code to another? Is it just to give money out so we can tear down public housing but not buildup community? And ultimately, are the residents better off? Have they greater tools of self-sufficiency, and then is the community in which they live doing that? Are we just building new federally subsidized empires, or are we building communities in which residents have these tools connected to empowerment or enterprise zones?

Thank you, Mr. Chairman, and thank you, Mr. Secretary.

Secretary CUOMO. Thank you very much, Senator.

SENATE MEASURE ON REVERSE MORTGAGES

Senator BOND. Thank you, Senator Mikulski. I am going to turn for the questions to our dear colleague from Alabama. Just a couple of observations. You mentioned the reverse equity mortgage. A measure has passed the Senate to provide HUD with additional tools to fight fraud and abuse in reverse equity mortgages. We have passed through the Banking Committee, and I believe through this committee, several directives to separate elderly and disabled housing, and we are delighted to see that is moving forward. I should note with respect to the recapturing of the section 8 reserves, we have fenced some $5.8 billion that we have attempted to recapture. If we have fenced more than is there, we need to hear about it.

ADDITIONAL HUD PROGRAMS

And finally, I want to reemphasize what Senator Mikulski has said about the new programs. You are talking about a new Brownfields Program. Please, let us not be continuing to add to the 240 programs. I have something in the Small Business Committee, a hub zone program to bring jobs to the distressed inner city areas. We do not want HUD to feel like it has to do everything. We would like you to stay focussed and, as a rule of thumb, for every new program you propose if you could recommend repealing at least two and perhaps more. That would be a wonderful way, perhaps, to begin to get a hold on and a handle on the responsibilities you have. If you want to repeal 5 or 10, I could be supportive of that.

Observations, for what they are worth, and now let me turn to Senator Shelby. Thank you, Senator Shelby, for your indulgence.

STATEMENT OF RICHARD C. SHELBY

Senator SHELBY. Thank you, Mr. Chairman. Mr. Secretary, I was not here earlier, I was detained at another meeting, and you may have gone through this dealing with the integrated disbursement information system. Have you gone into that?

Secretary CUOMO. We have not, Senator.

Senator SHELBY. OK. I did not want to be repetitious. It is my understanding, Mr. Secretary, that HUD is in the process of mandating a computerized payment and reporting system for all block grants, including the community development block grant managed by State governments, according to my Governor in Alabama's office. He has written us twice already on this. The system was designed, they say, for entitlement cities and cannot be adapted for State programs. I do not know this, I am just relating it.

It says IDIS is complex and burdensome with respect to time, personnel, and cost. They tell me that HUD's mandated system is designed in such a way that existent data in the State systems cannot be uploaded to HUD. As a result, that data must be entered twice since HUD's system cannot be used for accounting purposes. My Governor's office maintains that should the system go forward as is, there will be substantial cost involved for hiring, training, and equipping new employees. I know HUD has established a committee to look at States' concerns under your supervision and has postponed the activation date. However, the system is going forward with little or no consideration to the cost of States with respect to manpower and equipment. That is my understanding. You might have other information.

Now, where is the State pilot program in relation to the concerns of the States with new integrated disbursement information systems? Do you know off hand?

Secretary CUOMO. Senator, I know the pilot is ongoing. In general we have to get management information systems in place at the Department. Part of the conversation you did miss which is relevant is the chairman expressed concerns about the data collection, the information that we have, financial information we have, and we are putting systems in place. One of the systems we need is, the IDIS system which tracks CDBG, and how much we have and how much the grantee has. It is fundamental for us to know that,

and we need a management information system to do that. We have to move, even HUD eventually——

Senator SHELBY. That is a must, is it not? You have just got to have that.

Secretary CUOMO. Yes; we need to know the information and it has to be on a computer. I also understand that in that transition, while management information systems are the wave of the future and technology is the wave of the future, there is also a transition and there are fits and starts. Some of the States are saying we are not ready to provide this information, we are not ready to get on line, the flip side, Mr. Chairman, of the conversation we were just having. What we have said is we do not want anyone to implement a system that is not a workable system and an intelligent system. We will design a transition period to ease them into the process. We have working groups with the State.

But, Senator, the system has to work and the transition has to work and the training has to work, but we have to get to a point where we do have the financial management systems otherwise, especially as we have heard this morning, I do not have the basic information to provide this committee to make funding decisions and appropriations decisions.

Senator SHELBY. Do you know, Mr. Secretary, if there has been a cost benefit analysis of this project? And if you do not know now, could you furnish that for the record?

Secretary CUOMO. I can find out, Senator.

Senator SHELBY. We would be interested in the expected cost to the States both in dollars and man-hours. I think that is a consideration. I do agree with you that you need a system where you can track everything that is going on with the States with these community block grants and so forth. Otherwise you have no oversight. There is no way in the world. But the question is what is the best way to achieve that? I do not know myself, I am just raising these questions on behalf of my State. We have 50 States to deal with, and you have got to have a product that works. I guess that is the main line.

I am sure as the Secretary, this falls in your lap. You want it to work. If you will make sure it will work and accommodate the States, not as an impediment but to make it work, that would, I believe, be good. Because without the information that is going on, I do not know how you can monitor anything.

MANUFACTURED HOUSING

Manufactured housing. I do not know if you got into this at all earlier. If you did, I apologize to you. I would like to ask you a few questions about this. You know, that is a fast growing area of housing in America. It is my understanding that the manufactured home inspection and monitoring program which administers Federal construction standards is subordinated under the Office of Single Family Housing within HUD. If that is true, given the fact that manufactured housing accounts for nearly one in three new single family homes sold in the United States each year, and that is one of the best means, affordable means for home ownership for Americans with an average price tag—I did not know it was this low—average price, I am sure, of $37,000, do you believe the program

has been given the necessary leadership and oversight in HUD since it is a fast growing part of meeting the housing needs?

Secretary CUOMO. Senator, I agree with your concern and your expectations for manufactured housing. I think there is great potential for manufactured housing, and really playing an even increasing role despite the great progress that they have made over these past few years in the area of affordable housing in particular. It is one of the most exciting developments that I think we can point to on the horizon.

Have we done enough for manufactured housing within the Department? The Senator just has to keep in mind the overall context, as we were mentioning earlier. The Department is coming down about close to 50-percent reduction in personnel, and that is basically the backdrop against which we are doing all of these things. So, do we have a lot more staff to put in the manufactured housing division? No, just because most of the numbers in most areas are coming down. I am not familiar exactly with the Deputy Assistant Secretary level. On one hand we try to keep down the number of assistant secretaries and deputy assistant secretaries——

Senator SHELBY. Overhead. I understand.

Secretary CUOMO. But I will look at it, and let me assure the Senator that we will have the right leadership and the right priority for manufactured housing. Because, as I said, as a matter of policy——

Senator SHELBY. Well, it has changed a lot. I see where they are moving areas of manufactured housing, maybe two or three or four sections, and putting it together. It is changing the looks of a lot of the housing. It has I think improved a lot. If it is growing that fast and it is affordable, it looks to me like it ought to be answerable to at least the FHA Commissioner or someone under him. I wish you would let me review it—you review it and let me know how you view it for the future.

Secretary CUOMO. That would be my pleasure, Senator.

Senator SHELBY. But how can we do, working with you, a better oversight of it and give a helping hand making sure the standards are met for the American people, because it has increased availability of housing in some areas? If HUD is promoting that in some way, then that is probably positive. I do not know. I am not in the business. I have just seen some improvements.

PROPOSED RULE ON RESPA

I want to shift to RESPA. About one-half of today's residential mortgages originate with mortgage brokers, I have been told. Some of them write me and say there is ambiguity with regard to lender paid broker fees. You know, there is some controversy about this. As a matter of public policy, if this is true, if there is ambiguity there on what you can pay, what you can charge, or what you cannot charge—I do not know this myself. I just have had people write me and call me about it—should HUD be involved, or are you looking at the possibility to make a rule regarding what brokers can charge, what parameters they are involved in, where there is some idea of what is right, what is wrong, what is in a gray area, what is the right thing to do? I know it is a controversial area.

Secretary CUOMO. Senator, it is controversial. There is also litigation that is ongoing about it now, it is in the court system. What fees are right, what disclosure has to happen.

Senator SHELBY. But it is a big industry, is it not?

Secretary CUOMO. Very big industry, very important for, obviously, housing in America to continue at the rate it is continuing. As you know, we are trying to even increase the home ownership rate, so it is important to us that we keep it going, and going well. We have a rule in the Department now that is going to be going out literally in the next couple of weeks which will put out a number of options on how the situation could be handled. We will then get some comment on that and come up with a final rule. But you are right, it is controversial, it is in the courts, it does need to be clarified so the industry can get on with it. We are going to play our part by putting out a proposal, get comments, and then we will go to a final rule.

Senator SHELBY. Do you think that will be in the next few weeks?

Secretary CUOMO. Yes; it will.

Senator SHELBY. Well, that would be good. One thing we want to make sure is that no one gets gouged or taken advantage of in the market, but if there are no rules, if there are no guidelines out there, we probably need to make some to protect both the consumer and the broker, let them know what they are doing, what they can do and what they cannot do. It would make sense to me, because that is, a lot of people, that is where they get their loans, is it not?

Secretary CUOMO. Yes; it is. As the Senator knows, we are going to take a good stab at establishing clarity here on the specifics, but the RESPA law itself, which was passed back in 1974 I believe, really has some areas that could have been better written, could be clarified. It has been problematic to implement, to say the least. But on the specifics, we will have a proposed rule go out, we will get comment, and then we will go to final.

Senator SHELBY. That is all I am asking. Thank you, Mr. Chairman.

Senator BOND. Thank you, Senator Shelby. You touched on one of the questions I was going to ask, and the Secretary has indicated that the RESPA proposed rule will be coming out in the next couple of weeks. I would be interested in clarification of HUD's position. Is it possible that HUD could provide some interim guidelines which would be effective in the near-term future? This is a continuing problem, obviously. There is a great deal of uncertainty in the area.

Secretary CUOMO. I think, Mr. Chairman, that once we publish the rule, anyone who reads the rule will see basically where the Department is headed. It lays out a number of options, but there is ongoing litigation now. It is very heated on both sides. Again, the underlying law is vague. It was designed to protect the consumer. I do not know that it always got there, but we will publish the rule for comment. They can look to that rule and try to obtain guidance that way.

PRESERVATION PROGRAM

Senator BOND. Let me turn to the Multifamily Housing Preservation Program. In the last 2 years we have appropriated approximately $1 billion to fund the Preservation Program, mostly for capital grants for sales to nonprofits. There is evidence which the GAO is investigating and the HUD inspector general has raised questions about the possibility of significant overpayments to owners for excessive appraisals and rehabilitation under the program. I remain concerned, while there is talk about finding a new approach, that certain of these projects, especially projects with elderly and disabled residents in low-vacancy areas, where a project prepayment could result in displacement and the loss of a valuable housing resource.

I would like your comments on this Multifamily Housing Preservation Program, and I would also like to ask Ms. Gaffney if she will enlighten us with any further information she has on the program.

Mr. Secretary, you first, please.

Secretary CUOMO. Thank you, Mr. Chairman. You know the Department's position on preservation is, given the current budget environment, we do not support further funding for the Preservation Program. Is it a worthwhile goal to preserve the affordable housing stock? It certainly is, but at the cost of the Preservation Program, we do not think we have that luxury right now. The Preservation Program is much more expensive than providing a voucher. Over 5 years, a voucher is about $20,000, a preserved unit through the Preservation Program is about $56,000. Over 20 years, a preserved unit is about $97,000, a voucher is about $77,000. So, given the entire context of this conversation today and looking for a cost-effective alternative, we believe it is hard on the numbers to support the Preservation Program.

Having said that, we do have a Preservation Program which was passed by the Congress. We are implementing it. There are questions on the implementation of that. GAO is doing a study. I do not believe they have come out with a draft yet. But the issue revolves around repairs which are done by the new owner, the not for profit, which may have been in excess of original estimates of repairs. What is happening, to the best of my knowledge, is that new owners come in and we allow repairs to increase the liveability of the building, reduce future maintenance of the building. We allow a capital grant to make those repairs. The new owners are coming in with an aggressive, ambitious desire for repairs to the building, and we are funding them.

The question is should we be more diligent in trying to reduce those costs of repairs. GAO is doing an audit, we are going to be reviewing it internally ourselves, and I am going to be getting recommendations over the next several weeks on how we can correct it. My sense of it, again this is just a cursory review thus far, we have funded sometimes legitimate estimates, but estimates which are in excess of what we really needed to do as a bare bones minimum on rehab, and we have to be on a more conservative side on rehab as opposed to a more aggressive side.

Senator BOND. Thank you, Secretary. Ms. Gaffney, would you come forward and share with us your comments? We will ask for

further expansion, obviously, on this from the Secretary and from the inspector general. Welcome, Ms. Gaffney.

Ms. GAFFNEY. This is one area where I think it is fair to say that HUD and the OIG are generally in agreement. All of our work in the past has indicated that this program, that this is one of the areas where HUD does not really have the staff capability to do the program appropriately, and the costs as a result have been too high. The impact on these buildings in the past has been bad. What has happened is we have turned mixed population kinds of buildings into everyone receiving section 8, a concentration of the poorest of the poor, and the buildings go down hill.

The current program, we think there are cost problems, but the problem that we have run into—and I am not going to tell you that it is systemic, I do not know. We have, in the cases we have looked at we have found the problem. That is the new program relies on community-based organizations or resident counsels who purchase the properties. In a few cases that we have looked at we believe these are what we call sham nonprofits. That means that these are the sellers' constructs, and it becomes a means for the seller to maintain control over the property in the long term. Now, again, I cannot tell you that that is systemic, but that is what we have found in a few cases we have looked at.

I will tell you that the Department, at this point, does not agree with us in that characterization, and the issue continues.

Senator BOND. Thank you, Ms. Gaffney. That obviously will require some careful oversight. Senator Shelby, do you have any additional comments?

SALE OF PUBLIC HOUSING UNITS TO TENANTS

Senator SHELBY. I have no other questions, Mr. Chairman, except I do have one observation. You may have gotten into it, and maybe the Secretary has, or maybe Senator D'Amato did on the Banking Committee. The public housing problem, which is big in many ways, whether we rehabilitate them or what do we do with section 8, what do we do here and there—Mr. Secretary, as you know, you have got your hands full.

What are you doing, if anything, in the Department toward selling some of these units to the people in them? I know we talked about that, I know Secretary Kemp was into that several years back. I just know from my own experience that a lot of people, once they have ownership of anything, be it a car, they take care of it. If they had a house, I do not believe they would tear it up. I have thought, I have not run any numbers on it or anything, it costs the Government billions of dollars from the taxpayers each year to maintain the housing that we have. A lot of it is old, a lot of it needs maintaining.

But would we as a Nation be better off if we started privatizing, even if we sold some of these units as so-called condos or whatever, to the people in it at book value, you know, over the long term? I just wondered if you have ever done any pilot programs or if you have thought about it in that regard.

Secretary CUOMO. Senator, if I might, let me respond to two questions, if I might, just quickly following what the inspector general said, just for a point of clarity. I would agree with the inspec-

tor general, this is not the type of program HUD should be running. It is the exact opposite of every discussion we have had where we want to get simpler programs, where we can block grant to the local community and then monitor. This is a very complicated program that requires very sophisticated judgments by the HUD staff, and I would agree that we do not have the capacity to do this. We will be reviewing the program internally and we will have suggestions to change it, because if we do not have the capacity I want to make sure that there is no fraud, waste, or abuse on this, and we will be taking care of that.

Senator Shelby, we discussed this when we had the briefing prior to my confirmation. I could not agree more. There is all the difference in the world between ownership and rental. Before I had the pleasure of serving at HUD, I actually built and operated housing, in the good old days, Senator. I ran housing that was both rental and housing in which people had an equity stake, the tenants had an equity stake. And it is all the difference in the world. You cannot do what ownership does, the vesting, the stakeholder status, the pride.

Senator SHELBY. How do we get there?

Secretary CUOMO. In public housing, I do not know that the best course is to sell public housing to the residents. That is what Secretary Jack Kemp advocated. They did it on a very limited basis. I believe where they did it the costs were actually extravagant, that it cost a lot of money to get public housing in a condition that you could transfer it to a person and they could maintain it with their obviously limited income, otherwise they would not be in public housing in the first place.

COST OF REHABILITATING UNITS

Senator SHELBY. Would it cost more in the long run, because we continue to upgrade it? I know it would cost some money to get it ready, like an apartment, a home, a condo to sell, a house. You would fix it up, so to speak, and get it ready for the market. But then once you are through with it you do not have to come back year after year. I do not know how to get there, but it just seems that public housing as we know it, for the most part, I am sure there are success stories and you could recount a lot of them, but in America people that I know, and I know a lot of people and so do you, Mr. Secretary, they would like to own something in America. That is the American dream. The question is should we stay in the public housing business as we have known it all these years, as we have grown in it since the thirties, forever or should we figure out a new plan under your leadership as HUD Secretary to try something else?

I certainly do not know the answer. I do believe that what we have is for the most part not good for a lot of people in public housing, and it is not good for the taxpayers. So how do we get there? Heck, I do not know. But, you know, I am interested in some of your thoughts.

ALTERNATIVES TO SELLING PUBLIC HOUSING UNITS

Secretary CUOMO. Well, Senator, I think the point about some of the public housing in this country has not worked well is obviously

true. I also believe we do have a much different course in public housing than we have over the past few years. You could look at the HOPE VI Program which is totally different, look at public housing, you look at a law called the mandatory conversion law which could have really significant impact on public housing in this country that says if it is a big project and it costs too much to fix and there is a high level of vacancy, then we go to vouchers and that building goes away, literally. That could have sweeping impact on public housing. Literally it could take the worst, the biggest, the most expensive, the most vacant projects and eliminate them from the public housing inventory.

We then do sell some public housing when we think it works, to the residents. We do several thousand units that way. I would not say that it is a numerically significant number at this point, but we do that with public housing also. And then we have a host of other weapons in this arsenal that really I think are more direct: the HOME Program where we provide someone a subsidy and they can get home ownership; the section 8 home ownership initiative, which I am excited about, which says we could take a person who is in public housing, give them a section 8 voucher and let them buy a home with that. I think when you start to look at those different initiatives, you see a much different path for public housing in this country.

Senator SHELBY. Mr. Secretary, I do not recall the so-called HUD name of the program, it was many years ago, where you had a subsidized single housing program where people of lower incomes could buy a home under FHA insurance and they—was it a 235 program?

Secretary CUOMO. Yes; it is the section 235.

Senator SHELBY. OK. In my hometown of Tuscaloosa, AL, I could carry you today into areas, this was probably 25, 30 years ago, a lot of those homes, were some of the poorest people in my town at that time. They bought a lot of these houses. They are the best maintained homes, their lawns are cut, there is no trash in the street, they are proud of their home. I know you do not have a program like that today, but it fostered home ownership. I know I am getting off of the other a little, but we are talking about housing and people. It is one of the safest little neighborhoods around. It says a lot about owning something. They are buying it, they feel like an owner.

Can we ever get there? If we could do it, I think we could do miracles and you would, as a Secretary, under your leadership—I do not know how to get there, as I say, but I think we need to explore this, and you are in a position to probably think up a lot of this, you and your staff.

Secretary CUOMO. We are trying, Senator. Your vision is the goal for the Department. All of these efforts are to get to home ownership. Either it is moving a person from homelessness up through a continuum to home ownership, or public housing to home ownership, or welfare to home ownership, but the ultimate goal is home ownership because nothing works like home ownership. From the individual's point of view it is literally vesting in the American dream. It is the most stable community. It works for the community by and large.

Senator SHELBY. It works for the family, does it not?

Secretary CUOMO. It works for the family. So everything we are trying to do is geared toward making that a reality. The President has said the highest rate of home ownership in history is his priority. So everything is pointed in that direction.

Senator SHELBY. Thank you.

USE OF EMERGENCY CDBG FUNDING

Senator BOND. Thank you very much, Senator Shelby. Let me ask you a technical question. You may want to get back to us and respond in writing because this is going to be a major question in the emergency supplemental. As you probably are well aware, at this juncture the Senate has $500 million for emergency CDBG assistance for disaster areas, and gives HUD broad waiver authority. The amount of these emergency funds are unprecedented since there is not even an appraisal for the disaster costs. The flood disaster areas have no plans for the use of the CDBG funds, there is no agreed approach on how to rebuild from the disaster.

I would be interested in having either your comments here or written comments, what are the requirements that cover the use of emergency CDBG funds under HUD's existing guidelines? We know in some cases emergency CDBG has been used for buyouts, and I understand they are generally restricted to use in conjunction with the FEMA Program, but are there restrictions for the use of CDBG funds for buyouts? Can CDBG funds be used in conjunction with, for example, the buyout of private businesses, rental properties, or is it limited to personal residences?

Again, what can you do to enlighten us on this subject?

Secretary CUOMO. Senator, I will go back and check, if it works for the committee, on some of the technicalities. But unless my recollection fails me, I do not believe this is that unusual a circumstance. Northridge earthquake in California, Homestead, Hurricane Andrew in Florida, there was an allocation of CDBG which is almost by definition done before you know the actual disaster estimates, because the disaster estimates take a while to assess. You have to get an engineer to go in and say what the infrastructure damage is, what is the damage to Government buildings, what is the damage to homes, et cetera. The CDBG in those cases was allocated pursuant to a disaster estimate done by FEMA, and the allocation among eligible entities was also based on that disaster estimate by FEMA. We had broad waiver authority in those cases. I do not know that this waiver authority is any more or less than that waiver authority.

Senator BOND. Since fiscal year 1993, in the last 4 years I think only a total of about $1.2 billion has been appropriated in these emergency CDBG's. It has gone to 25 States. The $500 million request for emergency CDBG for this fiscal year is an unprecedented level, and if you would provide for us the guidelines, the working guidelines—I am familiar with the use of CDBG funds in conjunction with FEMA disasters. They have been very helpful in my State, and really they were the extra assistance that FEMA needed to move some very small communities out of the floodplain where they were willing sellers. It really made a difference.

But here we have what may be the CDBG Program being the lead horse, the pulling mule, and before FEMA has any concept of it we may have appropriated more in CDBG funds than FEMA has in disaster funds. We would like to have the guidelines that you use in handling that kind of emergency.

Secretary CUOMO. Just so the chairman knows, all past experiences have been that CDBG does not come in until FEMA has exhausted its resources and we are the fill behind FEMA, if you will. FEMA comes in, they take the first shot, they come up with a plan, they use FEMA funds. Where there is a shortfall, then we have used CDBG in the past. But that is always the MO that we have used, and I do not believe it would be any different in this case.

Senator BOND. Well, that was my understanding, and we need to know how it would work. I also have a problem in my home area that involves you, and I do not know if your staff has called to your attention the Kansas City Star on Sunday, May 11 that started off with an editorial on the dog that did not bark. It says that HUD has recently reviewed how the city needs to improve its management of funds in several areas, and that last year in Kansas City, the city hall apparently approved an outlay of some $17,500 for a picnic, and the HUD regional director of community planning and development said that spending money on picnics can be valid if it meets public service requirements. The article asked the question what is the public service for a $17,500 picnic, and what are the constraints on this? This obviously has stirred some comment in the community, not just in the editorial page.

Secretary CUOMO. Chairman, thankfully I am not familiar with that picnic. I was not at that picnic. I do not know anyone who was at that picnic. [Laughter.]

Senator BOND. They tell me it was not too lavish, but they spent 17 grand. It had to be a heck of a picnic.

Secretary CUOMO. I will check on the specifics, Mr. Chairman. I am not familiar with it.

Senator BOND. We will make a copy of this.

Senator SHELBY. I was not at that picnic either.

REVIEW OF EMPOWERMENT ZONES

Senator BOND. I did not make it. It could have been a bash. But we would appreciate your looking into this, because it is of interest.

Actually one of the other things mentioned in here, when we are talking about empowerment zones, the editorial also mentions the EDI Program and the subsidies provided thereunder. The question I guess that still lingers out there is the fact that in the past the inspector general has said that the selection of empowerment zones was not based on any formal selection criteria. Have you, as you look at empowerment zones and if you propose to move forward in that area, do you have any plans to remedy those problems or to take a fresh look at the selection of empowerment zones?

Secretary CUOMO. If you are suggesting are we considering going back and removing the designation from zones that received the designation, no. If that is the question, Mr. Chairman. I am aware of the inspector general's opinion. It is a different opinion than the opinion of the General Counsel, who reviewed the same law and came to a different opinion. The Empowerment Zone Program, by

and large, has been a very successful program. We did a report several weeks back that said 67 of the 72 empowerment zones/enterprise communities are already showing progress.

I think if you talk to these zones, Mr. Chairman, you will see an energy and an excitement that we have not seen in years. And these are zones which by and large are getting a small amount of Federal money for the bang, when one considers the bang we are getting for the buck. The enterprise communities $3 million. In some cases these enterprise communities for $3 million have leveraged 10 to 20 times as much funding. It was really a program that caused the community to come together. They got excited. It was about creating jobs, community revitalization, and it has worked. We were at a conference a couple of weeks back in Detroit with these empowerment zones. Kansas City was there. Mayor Cleaver was talking about how well it is working and the excitement, and that he knows that he has a Federal partner. So I am very pleased with the program, and we are not considering removing the designation from any zones based on the inspector general's opinion.

Senator BOND. Well, there are some mixed results on that. I do not think we need to pursue those here. We note that Camden was designated a primary empowerment zone and has since gone into receivership and there are other questions in other cities about how much money is actually being leveraged in. I do not think at this point that we need to extend this hearing any further, but we will explore with you at the staff level any further information that we may need on this. We will leave the record open. Believe it or not, I still have some additional questions that we will submit for the record.

Senator BOND. We invite the other members of the committee, if their staff is here, to submit further questions, and we will keep the record open for a week or so. We do want to have, before we move to markup on the bill, we do want to see how you are responding to the GAO and the NAPA and the inspector general requirements, that we move forward on job one, getting the financial and management systems in place so that you and we will know what you have got, where it is, and how it is being managed.

Any final comments, Mr. Secretary?

ADDITIONAL COMMITTEE QUESTIONS

Secretary CUOMO. Just let me assure the chairman that we share his concern about the management of the Department, especially in the financial management systems. We have embarked on a course that brings us to an entirely different financial management system than we have ever had before. We are going to contract with it. We know what we do not know. We are going to bring in an outside contractor to go through all 1994 financial systems in the Department, get rid of the ones that do not work, integrate all of them. We are making management changes, personnel changes in the Department, and if the committee indulges us a window of opportunity to get these changes in place, I think you will be pleased with what you see.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR BOND

### GAO DESIGNATION OF HUD AS A "HIGH RISK AREA"

*Question*. GAO initially designated HUD in 1994 as a "high risk area", the only cabinet-level agency ever so identified; GAO continues to designate HUD as a "high-risk area" (as recently as February 1997) vulnerable to waste, fraud, abuse and mismanagement.

GAO's major areas of concern are: (1) internal control weaknesses, such as a lack of necessary data and management processes; (2) poorly integrated, ineffective, and generally unreliable information and financial management systems; (3) HUD organizational problems, such as overlapping and ill-defined responsibilities and authorities, including a fundamental lack of management accountability and responsibility; and (4) an insufficient mix of staff with proper skills for the effective monitoring and oversight of HUD's programs.

This is a significant concern to this subcommittee especially since GAO also has described HUD as one of the nation's largest financial institutions, with significant commitments, obligations and exposures; that HUD is responsible for managing more than $400 billion worth of insured mortgages, $485 billion in outstanding mortgage-backed securities, and about $180 billion in prior years' budget authority for which it has future financial commitment.

These are not new concerns; they have echoed through almost every HUD appropriation hearing in every year. Secretary Cisneros spent 4 years talking about HUD reinvention and reform; however, HUD seems to be on a treadmill, always moving but never moving ahead. What can be done to rebuild HUD's fiscal management and program integrity?

Answer. Restoring the public trust in the Department is one of Secretary Cuomo's top priorities. Work in the following areas will go far toward rebuilding HUD's fiscal management and program integrity, and restore the public trust:

1. *Financial Systems Integration*.—GAO has reported that one of HUD's major management deficiencies involves inadequate management systems. It is the Secretary's plan to fully correct deficiencies in the financial management systems by the end of fiscal year 1998. The Deputy Secretary has formed a Departmentwide working group with the express purpose of developing a financial systems integration plan. Its initial work has been completed. As a result, the Department will soon enter into an Interagency Agreement with the Department of Treasury (Center for Applied Financial Management) to develop an implementation plan. Step one will be to assess systems requirements and provide a report to the Department. This is to be accomplished within the next 90 days. In addition, to assure effective utilization of information resources, the Department, in 1994, established the Technology Investment Board (TIB) to oversee investments in information technology. This Board has been recognized by the GAO as a "best practice" in managing technology in the Federal government. Secretary Cuomo has recognized the extraordinary potential in the TIB and has agreed to serve as TIB Chair.

2. *Financial Integrity*.—Recent IG and GAO reports have identified a serious disconnect at the program management level between responsibility and accountability. To remedy this, HUD is changing to a new business culture—a positive financial management process that is fully integrated with day-to-day operations and is owned by program managers. To transform HUD into an agency with a new business culture where management self-monitors and looks at results, a three-part strategy has been developed:

a. Make program managers responsible for the financial management of their programs and hold them accountable for achieving business results and reward positive performance.

b. Provide managers with clear, reasonable expectations and the resources necessary to meet those expectations. In particular, it is proposed that the Chief Financial Officer assumes an expanded role as partner, consultant and advocate for the program managers.

c. Develop and demonstrate this new business culture by incorporating front-end risk assessments in the reorganization and consolidation of HUD programs.

The Department has undertaken an assessment of key financial management functions, including control environment, control evaluation and monitoring, the budget process, funds control, performance measurement, reporting and financial systems. This assessment shows both the strengths and weaknesses within these key financial management functions. An implementation plan has been developed to assure that those functions identified with weaknesses will be addressed and appropriate actions taken.

A number of other initiatives are either planned or underway and will be provided when further developed.

*Question.* What can we do and what can you do to address HUD's fiscal, management and program deficiencies? Mr. Secretary, I would really like you to provide us with some benchmarks and timeframes to judge the fiscal health and reform of the Department. Mr. Secretary, if my questions seem harsh, it is because I am frustrated over the continued failure of HUD to come to grips with its management, fiscal and program deficiencies. I also respect how difficult it must be for you as the new Secretary at HUD to come to grips with so many different and difficult problems—programs and bureaucracies have a tendency to become locked in place and impossible to move or change. The real issue is to identify the management and fiscal deficiencies at the Department and what tools you need to address the fiscal and management deficiencies? What can and should Congress do?

Answer. The work undertaken by the Government Accounting Office (GAO) and the National Academy of Public Administration (NAPA) both directed by the Congress has identified a set of problems/issues which the Department must resolve. Implementation of their recommendations will go far toward addressing financial management issues at HUD. In addition, the NAPA report suggests that the "challenge for Congress is to work with the Administration and the Secretary of HUD to develop a long-term agenda for change * * *" and "help clarify HUD's mission and consolidate its programs." It goes on to say that "in the short term, Congress needs to work with the Secretary in creating additional waiver and demonstration authority for HUD."

NAPA STUDY

*Question.* The National Academy of Public Administration's study on Renewing HUD: A Long-term Agenda for Effective Performance (July 1994) advised that between 1980 and 1992, HUD's statutory mandates increased from 54 to over 200 programs, with the HUD IG recently estimating that the current number of HUD programs exceeds 240 programs and initiatives. The NAPA report also questioned HUD's ability to achieve its mission because of an overload of programs that "saps HUD's resources, muddles priorities, fragments the Department's work force, creates unmeetable expectations, and confuses communities."

I have seen little since 1994 to change this assessment. What has HUD done specifically to address the concerns and recommendations of the NAPA report?

Answer. The Department has provided a recent update to the ongoing implementation of the NAPA recommendations. The initial NAPA Report made 64 recommendations in 15 categories. At this time 44 of those recommendations have been implemented, 20 of them are in the process of implementation and 2 are not yet implemented. The Department has made a good attempt at responding to the NAPA recommendations.

*Question.* What is HUD's current relationship with NAPA?

Answer. The Department continues to make progress in addressing the recommendations made in the NAPA Report. This has called for regular meetings and discussions with NAPA staff. It is the Department's understanding that the Congress has proposed additional funding for NAPA in the proposed HUD Budget Supplemental. It is further understood that the funding is to be used to follow-up on the initial NAPA recommendations.

HUD DOWNSIZING

*Question.* HUD continues to downsize its employees with a goal of 7,500 employees in 2000, while continuing to add new programs, initiatives and activities. When will HUD focus on eliminating programs and activities while focusing on its primary programs, such as Section 8, public housing, CDBG, the HOME program, the McKinney Homeless Assistance programs and the FHA mortgage insurance programs?

Answer. The Department has made proposals for eliminating programs that are not core to HUD's business. There are a number of reviews and evaluations underway which may substantially expedite the Transformation processes which were designed to consolidate, eliminate and streamline existing HUD Programs.

*Question.* HUD also is mandated in last year's appropriation bill to provide the appropriation committees with a downsizing plan. When will the HUD downsizing plan be submitted to Congress?

Answer. Upon completion of the above-noted reviews and evaluations, a downsizing plan will be submitted to Congress. A strategic buyout plan has been submitted to and approved by the Office of Management and Budget. This will be

followed by a detailed downsizing plan, which should be completed in draft form within 30 days.

HUD INSPECTOR GENERAL

*Question.* Audit of HUD's Financial Statements pursuant to the Chief Financial Officers Act of 1990. The HUD IG on April 10, 1997 issued its audit of the fiscal year 1996 consolidate financial statements of HUD pursuant to the Chief Financial Officers Act of 1990. While the HUD IG noted that HUD has made some progress in addressing a number of material weaknesses, the HUD IG concluded that a Federal Managers' Financial Integrity Act (FMFIA) statement of noncompliance would be appropriate for HUD.

HUD's material weaknesses include: (1) the need for HUD to complete improvements to financial systems; (2) the need to ensure subsidies are based on correct tenant income; (3) the need to continue efforts to improve monitoring of multifamily projects; (4) the need to address FHA staff resource issues; (5) the need to place more emphasis on early warning and loss prevention for FHA-insured mortgages; and (6) the need to improve FHA's accounting and financial management systems.

Mr. Secretary, you are new and these are tough and slow issues. We need to work together to find ways to address these concerns and rebuild HUD's fiscal integrity.

Again, we need to find a consensus approach to identifying benchmarks for reform and a time frame for assessing HUD's success in addressing these concerns.

Answer. The Department is fully prepared to work together to find ways to address these concerns and rebuild HUD's fiscal integrity.

MULTIFAMILY HOUSING PRESERVATION PROGRAM

*Question.* Congress has appropriated approximately $1 billion to fund the Multifamily Housing Preservation program over the last 2 years, mostly for capital grants for sales to nonprofits. GAO currently is completing a study on the Preservation program which I believe will indicate that both the appraisals and the rehabilitation costs associated with the projects are often much too high. I know that HUD does not support continued funding for this program. In addition, Ms. Gaffney, the HUD IG, also has expressed deep reservations about this program and has several audits critical of certain sales.

While perhaps it is time to find a new approach, I remain concerned about certain of the projects, especially those with elderly and disabled residents, in low vacancy areas where a project prepayment could result in displacements and the loss of a valuable housing resource.

Mr. Secretary, I would like your comments on this program as well as those of Ms. Gaffney.

Answer. The Department shares your concern that limited funding resources require us to be vigilant about the cost of preserving affordable housing. At the same time, we are very concerned about minimizing displacement of the very vulnerable elderly, disabled, and other citizens served in our programs, and the loss of scarce affordable housing stock.

HUD's overall administration of the Preservation program since 1987 has been effective, and has resulted in the preservation of 814 properties consisting of approximately 100,000 affordable multifamily rental housing units. At this point, the Department has utilized approximately $2.2 billion to preserve these units at a per unit cost of $21,600. There remains over $1 billion of unmet needs in the funding queue. Short of the unlikely option of appropriating sufficient funds to provide incentives for every Preservation eligible property, there is no way to guarantee affordable housing stock will not be lost upon prepayment.

*High Program Costs*

The program funding costs are the direct result of conflicting goals within the statute. On the one hand, LIHPRHA provides equity take-out incentives to owners based on a valuation of the project as if it were to be sold as a market rate project. On the other hand, a much higher useful life standard is required of the nonprofit purchasers. They are expected to maintain the affordability of these units for 50 years with no additional Federal rental subsidies. The Department encourages nonprofit purchasers of sales projects to perform improvements above those which would be performed by an owner with a short term interest in selling the project and maximizing profit. As a result, rehabilitation costs can be high.

A number of the fundamental problems with the Preservation program are direct result of the overly prescriptive legislation. More than any other factor, this has added tremendous administrative burden, complexity, and potential for error, thereby minimizing the cost effectiveness of the program.

*Preventing Displacement/Tenant Protections*

As noted above, one of the Department's top priorities is to minimize the amount of displacement resulting from prepayments allowed under the Housing Opportunity Extension Act of 1996, particularly for elderly, disabled, and other vulnerable residents in low vacancy areas.

Prior to the 1997 Appropriations Act, tenant protections were provided in the form of restrictions on rent increases for a period of 3 years, and a requirement that the owner provide a portion of the relocation assistance necessary. With implementation of the 1997 Appropriations Act, tenants receive an "enhanced" voucher. This form of rental assistance gives the tenants the choice of remaining in their current unit, or moving. Neither of these forms of tenant protections prevent the loss of affordable housing stock, but they do protect individual tenants and families.

*Enhancing Program Effectiveness*

Should the Congress decide to fund the Preservation program in fiscal year 1998, the Department would recommend prioritizing (or even requiring) funds from other sources to leverage the Federal funding. A significant benefit of such a policy would be to supplement, not only HUD's funding, but our capacity to effectively monitor and administer the program in a cost effective fashion. Informed and financially committed State or local agencies can be a particularly effective resource in not only targeting the most deserving projects, but in negotiating rehabilitation and other transaction costs, and monitoring the management and affordability provisions through the life of the property.

PUBLIC HOUSING—HOPE VI

*Question.* The Hope VI program (Distressed Public Housing) attempts to respond responsible to many of the deteriorating, public housing high-rises that have become symbolic of urban decay. Through HOPE VI, HUD provides grants to demolish the worst public housing, replacing it with mixed income housing, detached housing and section 8 assistance. If implemented correctly, public housing under HOPE VI can help to revitalize urban areas and provide an anchor for new economic growth. What is the current status of the HOPE VI program?

Answer. HOPE VI appropriations from fiscal years 1993 to 1996 have been used to fund a total of 118 grants in 52 cities: 59 implementation grants, 24 demolition-only grants, and 35 planning grants.

Fifty-seven of the 59 implementation sites have proposed demolition as part of their revitalization. As of June 1, 1997, 8,733 units have been demolished. Seventy-four percent of the HOPE VI grantees planning to do demolition have started and/or completed their demolition.

HUD will receive full Revitalization Plans in August 1997 for the 20 implementation grants awarded from fiscal years 1996 appropriations. Of the 39 implementation awards made in 1993 to 1995, 17 grantees have begun construction. Approximately 1,300 units have been built and 750 units are available for occupancy. Twenty-two of the 39 sites are planning to use low-income housing tax credits; 20 sites are planning for a mix of market rate and subsidized housing. Twenty-three sites want to make some of the new units available for homeownership by public housing residents. Nineteen sites are hiring private program management for their HOPE VI programs.

All 39 sites are planning extensive community service and supportive services programs to help residents prepare for self-sufficiency. Eleven sites will have STEP-UP vocational training programs; eleven sites have also been funded for a Youth Apprenticeship program. At least ten sites have expressed interest in designing a Campus of Learners program for some or all of the new units. HUD has awarded several technical assistance contracts to outside experts so they can assist grantees in the development and administration of their self-sufficiency and community building programs.

HOPE VI funds spent as of May 31, 1997: Fiscal year 1993—22.7 percent; fiscal year 1994—17.9 percent; fiscal year 1995—11.9 percent; and fiscal year 1996—Pending execution of Grant Agreements; funds not yet available to grantees for expenditure.

HOPE VI is truly the new face of public housing. By designing housing that fits into the community, appeals to a broad range of prospective tenants, offers incentives for upward mobility and finding jobs, and provides supportive services to make self-improvement a reality, HOPE VI is defining the public housing of the future.

*Question.* How many projects have been demolished and replaced with some new form of public and mixed income housing?

Answer. The 59 implementation grants awarded through fiscal year 1996 will revitalize 68 public housing developments in whole or in part. As of June 1, 1997, 8,733 HOPE VI units have been demolished. A far larger number, of course, have been approved and/or funded for demolition, but not yet taken down. For instance, while only 8,733 units have actually been demolished to date using HOPE VI funds, HOPE VI grants awarded in 1993 to 1996 are expected to support the demolition of approximately 35,000 units.

As of the December 31, 1996, reports from grantees, fiscal years 1993 to 1996 HOPE VI funds are expected to revitalize, through new construction or rehabilitation, approximately 20,000 units; roughly 15,000 of which will be newly constructed replacement units. This number will become more precise as the recently funded 1996 grantees finalize their revitalization plans. The majority of replacement units are on-site or in the immediate neighborhood. HOPE VI grantees will build approximately 5,000 additional affordable and homeownership units using leveraged non-HOPE VI funds. Approximately 8,100 units are being reconstructed using outstanding MROP funds.

*Question*. What have we learned from this program?

Answer. Some of the initial lessons are:

—The Congressional directives articulated in the HOPE VI Appropriation Bills recognize three distinct sets of activities, each with identifiable costs: (1) Community and support services for resident self-sufficiency and economic development. (2) Remediation of the existing blighted public housing site, usually including relocation of residents, abatement of hazardous materials, demolition and removal, and minimal site restoration; and (3) Development of replacement housing, which is primarily new construction, but includes some rehabilitation of existing structures.

—Inner-city revitalization is expensive, and often must address infrastructure and neighborhood issues beyond the HOPE VI site, including public safety and blight. HOPE VI grants should be used to leverage other public and private funding sources, and should not be expected to pay the entire cost of neighborhood revitalization.

—HOPE VI should involve the whole community in revitalization and creating new housing opportunities, rather than be seen as just a public housing issue.

—Revitalization of existing, occupied sites takes longer than anticipated, and cannot be compared with new construction on vacant land.

—Because of historical apprehension and mistrust between residents and some public housing agencies, revitalization is often resisted at first because it is seen as permanent displacement from home and community. Sometimes outside technical assistance is needed to achieve positive working relationships.

—Doing HOPE VI revitalization at a "troubled" housing authority takes longer and will probably necessitate the use of an outside program administrator. It is difficult to "insulate" HOPE VI revitalization from other systemic problems or weaknesses of a PHA.

—Mixed finance of replacement and affordable housing is creating additional housing resources in the community, and is providing additional housing choices for lower-income households as well as viable mixed-income communities. This is a new experience for most PHA's and few are equipped to negotiate or administer such a program. PHA's need expert technical assistance to do mixed-finance development.

—To be successful, HOPE VI must be closely linked with State and local welfare reform, and the requirement to equip residents for self-sufficiency.

—HOPE VI effectively addresses the blighted social and physical conditions of severely distressed public housing developments with potential for viable revitalization.

—HOPE VI is working, and should be continued. The new models of lower-density, mixed-income and affordable housing are truly the public housing of the future.

EMERGENCY CDBG IN THE FISCAL YEAR 1997 SUPPLEMENTAL APPROPRIATION

*Question*. The fiscal year 1997 supplemental appropriations bill would appropriate $500 million for emergency CDBG assistance for disaster areas, while providing HUD with broad waiver authority. The amount of these emergency funds are unprecedented, especially since there are no current real appraisals of the disaster costs, the flood disaster areas have no plan for the use of the CDBG funds, and there is no agreed approach to how to rebuild from the disaster. What are the requirements that cover the use of emergency CDBG funds under HUD's existing guidelines?

Answer. In general, use of emergency CDBG funds are governed by existing CDBG program requirements in the Housing and Community Development Act of 1974, as amended, and in regulations at 24 CFR Part 570 and other relevant parts. The Department will grant appropriate waivers of program requirements, as it has for use of funds for past disaster recovery efforts, and will issue policy guidance that will likely be similar to that issued previously for recovery from the Midwest floods of 1993 and the floods of 1996. Once those materials are developed following enactment of the 1997 supplemental appropriations bill, we would be happy to provide you with a copy.

*Question*. In some cases, emergency CDBG funds have been used for buyouts. My impression is that the use of CDBG funds for buyouts are generally restricted to use in conjunction with the FEMA buyout program. What are the restrictions for the use of CDBG funds for buyouts? How could the CDBG funds be used in conjunction with private businesses—personal residences—rental properties?

Answer. You are correct that, in some cases, emergency CDBG funds have been used for buyouts. Though such use is not restricted to buyouts undertaken in conjunction with FEMA's Hazard Mitigation Grant program, generally, emergency CDBG funds used for buyouts are used to complement FEMA mitigation efforts. In conjunction with buyouts, emergency CDBG funds have been used to pay optional relocation assistance so that property owners can relocate to "comparable replacement dwellings." It has been HUD policy that the use of emergency CDBG funds for optional relocation payments to property owners of personal residences and businesses (including rental properties) follows the use of insurance proceeds, personal tax savings that result from a property owner's tax deduction of a capital loss on displacement property, FEMA Hazard Mitigation Grant funds for acquisition, and SBA disaster loan assistance. Note that while a grantee must provide optional relocation assistance uniformly among categories of assistance recipients, the level of assistance and categories of recipients assisted are grantee decisions.

MCKINNEY HOMELESS ASSISTANCE PROGRAMS

*Question*. I have been advised that a number of the McKinney homeless assistance programs (such as Section 8 SRO housing) could balloon in cost over the next few years. Are there additional costs that the subcommittee should be aware of in assessing how to preserve existing homeless assistance programs?

Answer. HUD is well aware of the fact that as a result of the significant funding increases beginning in fiscal year 1995, McKinney renewal costs do increase in fiscal year 1998 and beyond, and we have taken action accordingly. As part of this year's competition, HUD is asking communities to prioritize their renewal needs along with new projects. Communities are given the option of renewing Supportive Housing Program projects for up to 100 percent of the last year's costs of the original grant, for a period of up to 3 years. By statute, Shelter Plus Care renewals must be for 5 years.

HUD is currently considering the best way to renew Section 8 SRO Moderate Rehabilitation projects. Since the original grants were for 10 years, the first projects will begin coming up for renewal in fiscal year 1998, when approximately 800 units will be eligible for renewal.

FHA MORTGAGE INSURANCE PROGRAMS—FHA SINGLE FAMILY MORTGAGE INSURANCE PROGRAM—RAISING THE MMI LOAN LIMIT

*Question*. The FHA single Family Mortgage insurance program permits mortgage insurance not to exceed the lesser of 95 percent of the median single family home price in an area to 75 percent of the Freddie Mac limit (or approximately $151,725). HUD is now requesting that the FHA single family mortgage insurance loan limit be raised to the Fannie Mae/Freddie Mac loan limit (about $212,000). Why is this necessary?

This raises a number of serious questions, including (1) risk to the FHA insurance fund under which the federal government already has some $400 billion of contingent liability (e.g. high risk due to low downpayments and high loan-to-value ratios; many individuals are unlikely to have savings or credit to pay for significant repairs or make mortgage payments in the face of an economic downturn); and (2) intrusion of the FHA into the high-cost market in competition with private mortgage insurance companies.

Answer. FHA loans historically do not show a higher level of risk with higher insured amounts. For mortgages at current limits, the value of homes insured by FHA is at or below median area house prices. In these areas, the proposed increase would make possible the insurance of homes in a wider range of prices around area medians (both below and above median prices), where the market for homes sales is

stronger, and the risk of loss is lower. Especially in high cost areas, the additional FHA volume should reduce average risk levels. In other areas, it would likely have a mixed effect on risk, enabling FHA to serve some additional borrowers who are creditworthy, but pose relatively higher risk, without adversely affecting overall average FHA risk. We do not expect that on balance the proposal will result in increased risk to the FHA insurance Fund.

The reserves in the Mutual Mortgage Insurance Fund (MMI) of FHA, where most of the new business generated by the loan limit increase would be, achieved in 1995 the 2 percent capital reserve requirement set by Congress for the year 2000. In 1996, the reserve level has continued to increase.

Experience has shown that FHA and Private Mortgage Insurance (PMI) serve distinct segments of the market. FHA fees and costs are higher than PMI fees, so that most borrowers who qualify for private mortgage insurance go with PMI. FHA predominantly serves homebuyers that PMI leaves behind. This should hold true to an even greater degree at the price ranges affected by the proposed increase, due to the FHA requirement that borrowers put up a 10 percent marginal down payment for the portion of loans that exceed $125,000. Any competition between FHA and PMI insurance should remain small under the proposal. We estimate a small volume increase of 8 percent from the loan limit increase, because the proportion of borrowers served by the private market in these loan amounts is higher.

FHA's presence in credit markets benefits underserved and unserved populations directly by expanding access to home financing, and indirectly by setting standards that influence the products and services offered by private insurers and lenders. FHA brings public purposes and stability to mortgage credit markets, through both good times and downturns. Without infringing on the business of private insurers, the proposed increase in mortgage limits would extend the benefits of FHA insurance to many families with sufficient income to meet mortgage payments on the home they desire, but who otherwise would have difficulty obtaining affordable financing.

FHA MORTGAGE INSURANCE PROGRAMS—FHA SINGLE FAMILY MORTGAGE INSURANCE PROGRAN—FHA CORPORATION

*Question.* Also, there are concerns that FHA could be made more efficient by setting up a separate FHA corporation within HUD? This also is controversial for a number of members who would look at a new FHA corporation as another GSE (government-sponsored entity) which competes with the private sector. Does HUD support a new corporate FHA and what would be the advantages over the current FHA structure within HUD.

Answer. Creating a corporate FHA within HUD is very different from a GSE. While a GSE is stockholder-owned, and has a fiduciary duty to pursue policies which benefit those stockholders, a corporate FHA within HUD would remain government-owned and be integrated into the larger housing policy of the President and the Secretary of HUD. HUD proposed creating a corporate FHA within HUD several years ago. At the moment, we are working to make progress toward a more performance-based organization through administrative and existing authorities, but further statutory changes may be required as well.

To be most effective, a reinvented FHA should combine entrepreneurial market-driven mode of operation with a public-purpose mission and mind-set. The Secretary would continue to develop Federal housing policy, of which FHA would be one arm. He would preside over major policy issues, as today, and approve each year's business plan. Within the policies that are set, an FHA chief operating officer would handle the daily operations and the business plan and be accountable for performance. Additionally, administrative policies would be more flexible to respond to business needs.

An FHA corporation statute would consolidate numerous statutory insurance authorities into a small number of business lines, and allow FHC to change its products quickly to respond to market changes, provided they met public purpose and safety and soundness objectives.

SECTION 8 MARKET-TO-MARKET

*Question.* The Section 8 project-based programs have been significantly criticized because the Federal government routinely oversubsidized these FHA-insured projects with inflated section 8 rents through 15- and 20-year contracts. These section 8 costs need to be addressed, especially since many of these contracts are now expiring with section 8 rents above market. The VA/HUD fiscal year 1997 appropriations bill established a demonstration for restructuring the section 8 rents and mortgages to market, and the Senate Banking Committee has introduced legislation

each of the last 2 years to provide a long-term section 8 and mortgage restructuring program. In addition, HUD is following Senate recommendations in having drafted a proposed tax fix to this issue. What is the status of the Administration legislation and how would it work?

Answer. HR 1433 "Housing 2020: Multifamily Management Reform Act" was introduced in the House by Representative Lazio and co-sponsored by Representative Kennedy on April 24, 1997. The Bill was referred to the House Banking and Financial Services Committee; Ways and Means Committee; and, Judicial Committee.

The Administration's Bill has four critical goals: 1. Preserve and extend a commitment to affordable housing for 850,000 people; 2. Ensure that these projects are put on a financially sound footing well into the 21st century; 3. Protect low-income tenants; and 4. Reduce HUD's long-term costs for section 8 contracts.

Under HUD's proposal, over-subsidized rents can be reduced to market levels at or before contract expiration. The objective of the mark-to-market proposal is to induce owners to accept lower section 8 rents prior to contract expiration. The Department believes that property owners will agree voluntarily to terminate existing high-cost contracts before expiration in return for the benefits contained in this proposal. Owners recognize that Congress will not continue to fund the renewal of expiring contracts at above-market rents indefinitely into the future.

Responsible landlords would have their FHA-insured mortgages reduced to a level that can be supported by market rents. Writing down the mortgage and reducing the rental assistance payments would reduce both the Federal government's contingent liability and the excessive subsidy costs to United States taxpayers.

The reduction of the mortgage debt (or a sale of the property) will generally result in taxable income for the owners. In order to encourage voluntary owner participation, subtitle B contains tax legislation that will allow deferred payment of the tax liability in certain situations. Owners who are having their debt reduced by more than 30 percent and less than 75 percent of the mortgage will be able to amortize payment of the tax associated with the debt write-down for up to 10 years. Owners that sell their project to certain non-profits will be able to amortize the resulting tax liability for seven years. However, in either case, if certain events occur (such as sale of the property or death of the taxpayer), the unpaid tax becomes due and payable.

In exchange for a mortgage write-down and favorable tax treatment, property owners would agree to charge affordable rents on at least 40 percent of the rental units for another 15 years.

In addition to mortgage write-down, or debt restructuring, rehabilitation of the properties can be undertaken where necessary. Rehabilitation may be financed by using accumulated project reserves, new equity provided by the owner, and further debt write-downs. Rehabilitation funds from the insurance fund may be available to restructured projects to accomplish repairs and rehabilitation.

HUD proposes to renew expiring housing contracts with tenant-based and project-based assistance. In about half the projects, HUD will renew the contracts with project-based subsidy. This would occur in housing markets where market indicators demonstrated that it would be difficult to use tenant-based subsidy (for example, in areas with less than a 6 percent vacancy rate) and for projects which are predominantly (90 percent and higher occupancy) for elderly and/or disabled households.

In the case of tenant-based assistance, the assistance will be calculated to provide the tenant with an option to remain in the project at a reasonable market rent or to search for an apartment on the private market.

Finally, the legislation calls for the use of third parties ("designees") to assist HUD in administering the multifamily restructuring initiative. This reflects the existing constraints upon HUD resources and is designed to make best use of public and private managerial and housing expertise. State and local government agencies will have a priority choice to be designees.

### IMPLEMENTATION OF THE NATIVE AMERICAN HOUSING ASSISTANCE AND SELF-DETERMINATION ACT

*Question*. The Native American Housing Assistance and Self-Determination Act of 1996 established a new Native American Block Grant which consolidated most of HUD's Indian Housing programs (HOME, Public Housing programs, Homeless programs). The Administration is requesting $485 million for the Native American Block Grant Program for fiscal year 1998. What is the status of this block grant program? Is this program ready for implementation and for funding to start in fiscal year 1998?

Answer. The Native American Housing Assistance and Self-Determination Act (the Act) will fundamentally alter the delivery of housing assistance to Indian tribes

and their tribally designated housing entities (TDHE). Indian Housing Block Grant funding will be allocated to all eligible tribes or TDHE's according to a needs-based formula.

The Department has been actively engaged in all aspects of preparing this program for its scheduled implementation on October 1, 1997. As prescribed by Section 106 of the Act, a series of negotiated rule-making sessions with representatives of twelve tribes was recently conducted. Through these sessions, an allocation formula and a consolidated proposed rule were developed and approved by the committee, which is comprised of staff from the National Office of Native American Programs (ONAP) in Denver and tribal leaders from across the Nation.

The proposed rule is expected to be published in the Federal Register for public comment soon. Once the comment period ends, the negotiated rule-making committee will meet again to prepare the final rule. A public notice has been issued by the Department requesting that the Indian Housing Plans, required under Section 102 of the Act, be submitted not later than November 3, 1997.

EMPOWERMENT ZONES

*Question.* HUD would like to fund another round of empowerment zones, even though there are significant questions regarding the reliability of the original selection process and whether the empowerment zones have worked.

Answer. The HUD Inspector General (IG) reviewed our selection process following the first EZ/EC competition, and made only two recommendations for change, both of which were administrative in nature. We have complied with both. We have also worked with the IG to develop a Competitions Manual to govern how all future competitions managed by the Office of Community Planning and Development are to be conducted.

As to whether EZs have worked, we believe that the results of the first 2½ years of the program have been quite promising. Since the designations were made in December 1994, EZs and ECs have begun to translate the goals articulated in their strategic plans into specific activities, with investment strategies that are focused primarily on economic opportunity and sustainable community development. While there were a few problems, the vast majority (67 of 72) of EZs and ECs have shown a great deal of success in their program implementation to date.

The EZ program is successful because of its combination of extraordinary vision and concrete, measurable results. The Strategic Plans developed by the communities represented a wealth of innovative thinking about how best to address the difficult and complex problems of America's distressed communities. We are now beginning to see the rewards of such careful planning, community collaboration, and hard work. In fact, the General Accounting Office Report (issued in December 1996) concluded that "HUD has taken commendable steps toward establishing results-oriented measures for the EZ program. Among other things, the EZs have developed benchmark that described planned activities, as well as the baselines and time frames against which progress toward accomplishing individual benchmark can be measured."

The EZ Initiative represents the most ambitious performance-driven grant management effort to date. EZ/ECs use performance benchmarking to set specific goals for Federal, State, local and private investment. The benchmark provide a blueprint for an entrepreneurial, no-nonsense way to distribute funds, fulfill commitments, and measure performance.

Our recent publication, WHAT WORKS! in the Empowerment Zones and Enterprise Communities provides examples of accomplishments in EZ and ECs around the country. More than 100 programs and projects are highlighted, providing reason to celebrate the successful revitalization of our Nation's communities. Moreover, these serve as models for programs throughout the country, helping to bring businesses and residents back to America's most distressed areas and giving hope to the people of every community.

Communities have used Federal funds to leverage additional private investment from foundations, businesses, and other sources. Federal funds have also been used as seed money, supporting the communities as they build partnerships with a wide variety of organizations in both the public and private sectors. In addition, tax incentives have been highly successful in drawing private investment into distressed communities.

—Since designation of the EZs in 1994, the total private and public investment activity commitments has exceeded $2.6 billion.

—More than $2 billion in private investment has been made, indicating that capital investors perceive future opportunities for investment returns in the EZs

to be equal to or greater than in other locations. For every dollar of EZ funds, $18 of private investment are leveraged.

—The overwhelming focus of the new investment—$1.7 billion—is targeted toward economic opportunities, including business-related job retention, expansion, relocation, and creation; investment pools for capital access and innovative financing needs; jobs- and occupation-skills training; and entrepreneurial and entrepreneurial and business-support services and assistance.

VOUCHER PROGRAM

*Question.* The voucher program currently allows assisted households to pay more than 30 percent of their adjusted income for rent if the rental house costs more than the payment standard. As I understand it, there is evidence that the median voucher family pays 38 percent of their adjusted income for rent and that 45 percent of new voucher families or movers pay more than 40 percent of their adjusted income for rent?

Answer. This is correct. A copy of a rent burden table showing these data is attached.

*Question.* Since 30 percent of adjusted income has become the basic federal standard for rent affordability in the country, what do these rent burdens in the voucher program mean for the cost of housing for low-income families? Also, since families are limited in the section 8 certificate program to paying 30 percent of their adjusted income for rent, how successful are families at finding affordable rental housing in the certificate program?

Answer. These figures do not represent a major change in the program over time. Rent burdens among movers in the Freestanding Housing Voucher Demonstration of the late 1980's were comparable. We have consistently found that some renters will choose to pay more than the FMR when that option is available, even at the cost of a higher rent burden.

Rent burdens may be surprisingly high in the voucher program for the following legitimate reasons:

—Families seeking modest and decent housing in good neighborhoods may be willing to lease units with rents substantially above the FMR.

—By statute and by regulation certain income sources are not counted in annual income. Among these are foster care payments, earnings of dependents, student loans and grants, and wages for persons enrolled in certain training programs. In addition, some assisted households have virtually all food and medical needs met by the Food Stamps and Medicaid programs, respectively. In short, for some families, it would be possible to have rent burdens even in excess of 100 percent of annual income without hardship, simply because annual income is a poor measure of total resources.

—At any given time, certain communities may be undergoing rapid rent inflation. The Fair Market Rent (FMR) published by HUD will respond to this inflation only with a significant lag.

—Housing authorities may choose under the voucher program to maintain payment standards that are below the FMR, in order to serve a larger number of families. This may be a reasonable choice, as only about a fourth of eligible households are assisted. There is a significant relationship between rent burdens in the voucher program and the setting of the Payment standards: the higher the Payment Standard (relative to FMR) the lower the incidence of high rent burdens.

HUD has sponsored two studies bearing on the utilization rate:

—In the Freestanding Housing Voucher Demonstration (final report issued in 1990), the success rate was 61 percent in the certificate program and 64.6 percent in the voucher program. This difference was statistically significant.

—In the Section 8 Rental Voucher and Rental Certificate Utilization Study (final report issued 1994), the success rate for the two programs combined was 80 percent (87 percent outside New York City). Results were not broken out by program, but about three-fourths of the families probably received certificates.

Preliminary data are also available that show the relationship between units under lease (for which subsidies are actually being paid) and units under contract (the number of subsidized units that HUD has agreed to pay for). The two numbers will always be different for various reasons; the most important are the time that it takes a PHA to process a new family and the time that the new family requires to identify an acceptable unit.

The lease-up rate in the voucher program (unit-months of subsidy used divided by unit-months available) is 84.4 percent; the lease-up rate in the certificate program is 82.8 percent. Both figures are probably affected by the statutory 3-month

delay in the reissuance of turnover units. HUD has proposed that Congress permit this provision of the most recent HUD/VA Appropriation to expire.

VOUCHER PROGRAM RENT BURDENS

The table below excludes from analysis all cases other than new admissions and moves, and also removes all cases where tenant contribution is $25 or less.

The median voucher family analyzed pays 38 percent of adjusted income for rent. 45 percent of mover/new admission tenants paid more than 40 percent of adjusted income toward rent. Caveats follow the table.

| Tenant contribution as percent of adjusted income | Percent of voucher tenants in this range | Percent of cumulative distribution |
|---|---|---|
| 0–14 | 4.8 | 4.8 |
| 15–19 | 4.6 | 9.4 |
| 20–24 | 7.5 | 16.9 |
| 25–29 | 9.7 | 26.6 |
| 30–34 | 14.1 | 40.7 |
| 35–39 | 13.9 | 54.6 |
| 40–44 | 11.8 | 66.4 |
| 45–49 | 7.5 | 73.9 |
| 50–74 | 18.3 | 92.2 |
| 75–99 | 4.7 | 96.9 |
| 100 percent or more | 3.1 | 100.0 |

Source: MTCS February 1997 tape; 8 percent sample; records with effective dates prior to January 1, 1996 excluded.

The table contains some judgmental editing. MTCS has some data in which HA's have either left the amount blank and a zero has been substituted for the blank, or have submitted the number of cents where HUD asks for dollars. (This leads to ratios that are 100 times their true values).

In producing this table, we have tried to account for the following facts:

(a) The MTCS shows 2.9 percent of voucher tenants paying less than 10 percent of total income for rent. This is contrary to program rules, but probably reflects more on data entry than on administration; and

(b) The MTCS shows 3.7 percent of voucher tenants paying more than 105 percent of total income for rent. This is not bloody likely.

Our adjustment is to remove the bottom 2.9 percent and the top 3.7 percent from the distribution.

We have also tried eliminating cases where total income was less than $1,000, and cases where tenant contribution was double the FMR. The results, which are not shown, made only a slight difference.

EXPIRING SECTION 8 CONTRACTS

*Question.* As HUD knows, the cost of section 8 contracts will skyrocket over the next few years. In particular, the VA/HUD Fiscal Year 1997 Appropriation Act appropriated $3.6 billion to cover the cost of renewing expiring section 8 contracts for fiscal year 1997. The cost of renewing all Section 8 contracts for fiscal year 1998 (a total of 1.7 million expiring contracts, many of which are for the elderly and disabled), however, will require some $10.2 billion in budget authority for fiscal year 1998. The cost of expiring section 8 contracts will then rise to $11.9 billion in fiscal year 1999; $13.7 billion in fiscal year 2000; $15.1 billion in fiscal year 2001; and $16.4 billion is fiscal year 2002.

I remain very concerned that we continue to fund these existing section 8 contracts. Senator Mikulski and I have sent letters to the Chairmen and Ranking Members of both the Budget and Appropriation Committees requesting special attention to this vital issue.

Nevertheless, HUD abruptly on April 17th found some $5.8 billion in unobligated and excess section 8 contract reserves.

Answer. We have always been aware that the Section 8 programs generate project reserves; multiyear increments have always been funded on a level basis, so that each increment would generate reserves in the early years so that the housing authority (HA) could draw upon them in the later years. In mid-1995, we began analyzing what portion of the reserves could be considered excess in order to identify expiring increments which could be extended using the reserves. During the nego-

tiations with Congress on the 1995 Rescission Act (Public Law 104–19), HUD was able to offer-up the use of reserves as a means of funding (extending) the expiring contracts, along with shortening the terms of the contracts, in order to comply with the rescission of almost $1.2 billion. The 1995 rescission, in fact, specifically authorized the use of the reserves. It was critical at that time since the appropriated funds were insufficient to cover all renewal costs. As a further point of clarification, it is noted that all project reserves held by the HA's are obligated funds.

*Question.* The failure of HUD to get a handle on this section 8 funding is indicative of HUD's fiscal and management deficiencies as identified by GAO and the HUD IG.

Answer. The Department has been working diligently since 1993 to develop automated financial management/data systems that would enable the Department to determine, among other issues, the appropriate amount of project reserves for a HA to maintain. HUDCAPS was implemented during fiscal year 1995, and every account now has been reconciled with the old system. The reconciliation took over a year to complete and it was only through this reconciliation that the Department was able to provide the project reserve numbers. The ability of HUD to identify the project reserves in total is, in fact, indicative of the substantial improvement in HUD's fiscal and management systems.

*Question.* Mr. Secretary, you met with me as recently as March 12th and I was assured in that meeting that there might be as much as $1 billion of section 8 reserves on hand, but certainly no more than $1 billion. In addition, in a Banking Committee hearing on September 28, 1995, Bruce Katz, then Chief of Staff to HUD Secretary Cisneros, testified that HUD estimated that, in fiscal year 1996, there was only about $460 million in excess section 8 contract reserves in public housing authorities around the country.

Answer. That amount, $460 million, was the amount of reserves the Department indicated would be used for 2-year extensions in fiscal year 1996. It does not represent the total amount of reserves that could have been considered excess at that time, but only the amount that was anticipated to be used for extension of expiring increments in that year; extensions were limited to those increments which could be funded from reserves for a full 2 years after allowing a 6-month threshold amount to remain in the reserves. It was an amount HUD considered available, absent (at the time) a system to accurately determine project reserve levels.

*Question.* Nevertheless, on April 17th of this year, HUD finds not only $3.5 billion in excess, unobligated section 8 reserves to pay for FEMA needs but indicates it will revise its section 8 contract reserve requirements so that there is an excess of $5.8 billion in unobligated section 8 contract reserves. It is a big jump from $460 million to $5.8 billion. This is a big problem and raises significant management issues.

Answer. Again, for the record, it is noted that all project reserves held by the HA's are obligated funds. The $5.8 billion figure identified in April is based on substantially different assumptions and a much larger universe than the $460 million figure previously noted. It included the entire universe of HA Section 8 programs, regardless of whether it had expirations in the next fiscal year, and assumed only a 2-month threshold amount remaining in the reserves. Moreover, it was based on a reconciliation of reserve balances nationwide, to correct any inaccuracies drawn from prior accounting systems.

*Question.* In addition, since that time, I have asked my staff to begin evaluating the status of the section 8 reserves. I am concerned about the accuracy of the $5.8 billion and the continued need for retaining adequate section 8 reserves. I only have anecdotal evidence, but I have been told that many small PHA's have little if any section 8 reserves on hand and that, for a small PHA, a month's section 8 reserves might be considered normal to cover shortfalls. On the other hand, I understand that the Housing Authority of Kansas City is likely to have some $800,000 to $900,000 on hand, approximately 5 months worth of section 8 reserves.

Answer. Project reserve amounts vary among housing agencies, according to the size of the HA, and the age of their program, their leasing history and the relationship of costs to historical funding levels. There is no mandated reserve level—reserves accrue based on the normal operation of the program. HA's have been given the autonomy to manage their programs as efficiently as possible consistent with program regulations and handbooks, and in a manner that would not create negative reserves. Certificate programs that experience shortfalls are provided additional funding through amendments to ensure continued assistance for the number of units contracted by HUD. Amendment funds, however, were not provided for Voucher programs which were initially funded for shorter terms with a statutory 15 percent inflation factor. The recently completed analysis of excess reserves assumes that every HA should have a minimum 2-month threshold amount in their reserves.

As part of HUD's efforts to ascertain accurate reserve levels and maintain financial management data in our automated system (HUDCAPS), Kansas City was informed in September 1996, that its Certificate project reserves totaled $22 million, as of the end of the housing authority's fiscal year 1995. (See attached letter.) Subsequently, Kansas City's 1996 settlement (as of December 31, 1996) showed that additional project reserves accrued (actual and projected through 1997). Based on the Department's current policies to maintain reserves to cover contract terms and extensions, and to maintain a 2-month reserve threshold, Kansas City will have $32,846,064 of excess project reserves at the end of their fiscal year 1997.

LETTER FROM KAREN SCHLEPER

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT,
*Kansas City, KS, September 18, 1996.*

Mr. EUGENE JONES,
*Executive Director, Housing Authority of Kansas City, MO,*
*Kansas City, MO.*

DEAR MR. JONES: Enclosed you will find the HUD-approved year-end settlement for the Certificate Program, MO002CE, for the period ending December 31, 1995. Please note the ending balance of your project reserves for the program has changed to $22,886,338.

The conversion of accounting information from the PAS/LOCCS systems to HUDCAPS in May, 1995 identified discrepancies in the amount of budget authority available, budget authority liquidated, and project reserve balances. The Annual Budget Authority has been reformulated based upon the effective and expiration dates for each individual increment using an effective date of the first day of the month. Partial years have been prorated accordingly.

The reformulated budget authority has been compared to the amount of cumulative disbursements through the reporting period. The difference between the reformulated budget authority and cumulative disbursements is the amount of project reserves available for use and should be carried forward as your beginning balance for your current PHA fiscal year.

Please make the necessary adjustments to your accounting records. You will be required to adjust account 2840, Cumulative HUD Annual Contributions, account 2827, Project Account, and account 2810, Unreserved Surplus, as applicable.

We apologize for any delays and inconvenience created by the reformulation process for your Authority. This is a one time adjustment to the above program to bring the accounting records in line with the terms of the Annual Contribution Contract (ACC).

Should you have any questions please contact Robert Boepple, Financial Analyst, (913) 551–5587.

Sincerely,

KAREN SCHLEPER,
*Director, Management Division—Office of Public Housing.*

*Question.* Even more troubling is that several PHA's report that there are few rules or restrictions concerning the use of section 8 reserves—that most uses are okay if consistent with the purposes of the Section 8 or public housing program.

Answer. Project reserve balances are maintained in the Department's central accounting and program system, HUDCAPS, and can only be used to supplement each year's Budget Authority in the operation of the program. The Annual Contributions Contract between the Department and each PHA stipulates that HUD may establish and maintain a reserve account, in an amount determined by HUD, and that the account may be used to pay any portion of the program payment approved by HUD for a fiscal year. Current policy on use of the reserves was established in HUD Notice 96–68, which stipulates that PHA's may not use the reserves to lease more than the number of units originally reserved by HUD and that HUD will use reserves to extend the terms of expiring contracts and to cover increased costs of continuing to assist the number of units reserved by HUD. Your characterization above of the Section 8 reserves, however, does not apply to these project reserves; rather it applies to the HA's operating reserves, which are different funds entirely. An HA is paid an administrative fee to cover its costs of operating the Section 8 programs (salaries, office space, supplies, and all other administrative costs). Any portion of that fee that is not needed for operations in the year it is earned accrues to the operating reserve, which is maintained by the HA. The operating reserve is to be used to support program administration in later years, if cost increases exceed fee increases. If an HA determines that any portion of the operating reserve is not needed for future program administration, the HA may use that amount for other housing purposes consistent with State and local law.

*Question.* Mr. Secretary, I know that you are as concerned as I am about the availability and use of unobligated section 8 reserves. You have indicated to me that HUD has contracted with Price Waterhouse to audit the Section 8 reserve accounts. What is the status of that report and when do you expect a final accounting of Section 8 funds.

Answer. On April 17, 1997, I directed my Acting Chief Financial Officer to obtain the services of an independent public accounting firm to verify the amount of excess Section 8 tenant-based program reserves estimated by the Office of Public and Indian Housing (PIH) to be available in fiscal year 1998. Only one firm, Price Waterhouse and Co., agreed to meet on short notice to discuss requirements for such an engagement.

An audit of the PIH Section 8 program office estimates was previously requested. However, during preliminary discussions with independent accountant firms and Departmental staff, several complications to obtaining an audit were discovered. One complication related to the fact that calculating excess reserves involves projections of future events. While projections are a normal part of budgeting, the uncertainty with regard to the assumptions (inflation and provision for future contributions to reserves, for example) appeared to preclude absolute guarantees as to the accuracy of an amount by any auditor. A related complication is that excess program reserve balances is a dynamic amount which changes daily as payments are made, new Budget Authority is added, contracts are renewed or extended and accounts are closed-out by the housing authorities.

Another impediment to obtaining an audit opinion is the length of time since the books and records of its grant and subsidy programs had been audited by an independent auditor. The Office of the Inspector General has been the Department's primary auditor for the last 2 years. It was determined that the primary auditor is the only one that could render an opinion on an element of the Department's financial statements in a reasonable time period since they would be the only entity capable of expanding their existing work without the necessity of starting from the beginning, as a new firm would have to do.

While an audit might not be practical, other forms of assurance can be obtained by an independent public accounting firm in a reasonable period of time. One such alternative is an engagement to apply agreed-upon procedures to the excess reserve amount calculated by the program office. In an agreed-upon procedures engagement the accountant issues a report of findings based or specific procedures performed.

To address the limitations of an agreed-upon procedures engagement, the Office of the PIH Comptroller, in conjunction with the Office of the Chief Financial Officer and the PIH Section 8 program office, designed a verification methodology to test the reasonableness of the amounts reported as excess reserves by the Section 8 program office. The verification method compares total undisbursed Budget Authority currently recorded in HUDCAPS to a projection of requirements to fully fund all existing contracts to their expiration date. The result is a projection of total excess Budget Authority (some of which has been closed to reserve accounts and some which has not).

The services of American Management System (AMS) were utilized to perform the verification methodology. AMS is the contractor that developed the Federal Financial System (FFS) that is currently the foundation of both HUD's Central Accounting and Program System (HUDCAPS) for PIH Section 8 programs as well as for Salary and Expense payments. AMS is currently under contract with the Department to provide on-going support for the continued implementation of HUDCAPS/FFS.

Price Waterhouse's work is complete and a report should be available by the second week in July. Procedures performed and to be reported on thus far include: (1) testing for clerical accuracy of audit trails and spreadsheets; (2) sampling source documents maintained in the field offices for agreement with spreadsheet amounts; and (3) tracing financial and program amounts to PIH's (also the Department's) integrated financial management system.

*Question.* I also am very interested in knowing how HUD will assess the amount of section 8 reserves that PHA's should keep on hand for shortfalls or other needs. For example, I understand that there are significant concerns over the possible impact of welfare reform on HUD's obligation to pay public housing operation costs and section 8 rents; that the cost of welfare reform to HUD could be calculated in the billions of dollars. How does the Department plan to calculate this potential cost into section 8 contract reserves and future section 8 operating subsidies costs?

Answer. The cost of welfare reform is a prospective one and we are building it into per unit costs to be used in developing future budget estimates. Since we are now processing contract renewals for only 1-year terms and since the bulk of our inventory will expire in fiscal year 1998, we anticipate that most of the costs of welfare reform will be carried by future funding rather than by current reserves.

## RESTRICTIONS ON LEASING ADDITIONAL UNITS; BUDGET GUIDANCE

DIRECTIVE NUMBER: 96–68

Subject: Restrictions on Leasing Additional Units; Budget Guidance

1. Purpose: This Notice provides guidance to public housing agencies and Indian housing authorities (HA's), and HUD staff regarding the number of units that can be approved in an HA's budget. Guidance is also provided regarding the utilization of funds from an HA's Annual Contributions Contract (ACC) Program Reserve Account to support the budgeted units, provided that additional units are not approved.

2. Applicability: These policies apply to HA's administering the rental certificate and rental voucher programs. These policies do not apply to the moderate rehabilitation or single room occupancy programs.

Please note that Notice PIH 96–7 issued on February 13, 1996 covering mandatory delays in reissuing turnover rental certificates and rental vouchers, optional suspension of the federal preferences, and fiscal year 1996 administrative fees is still applicable to these three areas.

3. Leasing Policy: HA's may approve leases for the number of units of assistance approved by HUD in the budget for the current HA fiscal year. However, HA's should not submit, and State or Area Offices should not approve, subsequent fiscal year budgets which reflect the use of funds from the ACC Program Reserve Account to provide assistance for additional units.

Previously, HA's were permitted to use ACC Program Reserves to lease-up additional units, as long as the contract authority and ACC Program Reserves covered the subsidy and administrative fee costs of those units and the additional lease-up was approved by HUD. That policy has been revised as follows:

A. An HA may not use ACC Program Reserve funds to lease-up additional units;

B. An HA may lease-up more than the number of units originally reserved by HUD if it can support the additional units within the contract authority amount under ACC. No funds may be used from the HA's ACC Program Reserve Account to cover the subsidy and administrative fee costs in future years.

C. If an HA currently has an approved budget to assist more units than the number of units initially reserved by HUD, and the contract authority will not support the additional units, HUD will approve subsequent budgets to continue assisting all families currently assisted. However, the HA must reduce the number of assisted units through attrition until the HA is within the number of units that HUD initially reserved for the HA, or the number of units that can be supported by the contract authority, whichever is higher.

D. ACC Program Reserve Account funds will be used to extend the term of expiring funding increments, and to cover increased costs of continuing to assist the number of units reserved by HUD.

4. Budget Review and Approval: State or Area Offices shall use the budget review and approval process to monitor and manage the number of unit leases which a HA may approve.

A State or Area Office may approve a budget for more units than are currently under lease, or were initially reserved by HUD, as long as the proposed number of units can be supported within the contract authority amount for the HA fiscal year, as well as subsequent HA fiscal years. If the budget reflects the use of ACC Program Reserves, the State or Area Office must carefully review the proposed units budgeted to ensure the ACC Program Reserves are being used to continue assistance to families currently assisted, not to lease-up additional units. This review must also consider any portion of the ACC Program Reserve Account which has been restricted. Restricted ACC Program Reserves, set aside to support contract extensions, should not be included in this analysis.

If the HA's rental certificate or rental voucher program is overleased at a level which cannot be supported within the contract authority available for the HA fiscal year and/or is not sustainable in future HA fiscal years, the State or Area Office may approve continued assistance, including the use of ACC Program Reserves, for all families currently under lease. However, the budget approval letter to the HA must direct the HA to stop reissuing turnover rental certificates or rental vouchers until the number of units under lease has declined to the number of units which can be assisted within the contract authority available for the HA fiscal year. Of course, HA's may not reissue turnover rental vouchers and rental certificates for 90 days.

5. Issuance of Rental Certificates or Rental Vouchers: In the past, many HA's have found it necessary to issue two, three or more rental certificates or rental vouchers to eligible families in order to achieve one successful lease-up. This is most

common in rental markets with low vacancy rates and/or limited availability of affordable and adequate housing units. This practice does not need to change under these revised policies.

Where market conditions adversely affect the ability of rental certificate and rental voucher holders to find suitable units, it is anticipated that HA's will continue to have to issue multiple rental certificates or rental vouchers to achieve one successful lease-up. Occasionally, rental certificate or rental voucher holders may be more successful than normal in their search for units, and the HA may find itself briefly in an overleased situation. If so, the HA must not reissue turnover rental certificates or rental vouchers until the number of units under lease can be fully supported by the contract authority. Also, the HA will be required to hold additional turnover rental vouchers or rental certificate up to the number of units subsequently overleased for 90 days.

6. Contact: If questions arise, please contact Mary Conway, Director of the Finance Division in the Office of Rental Assistance on (202) 708–2934, extension 4078.

GOVERNMENT PERFORMANCE RESULTS ACT (GPRA)

*Question.* What is the status of HUD's implementation of the Government Performance and Results Act? When will HUD be ready to submit a draft of its "Results" plan to the VA/HUD Appropriations Subcommittee for consultation?

Answer. We began implementation of GPRA in January 1994 with the establishment of the Secretary's Performance Report (SPR). The SPR tracks performance measures set forth in the Annual Management Plans and Management Control Plans done by each Assistant Secretary.

Beginning in fiscal year 1995, HUD negotiates with OMB regarding performance measures which are outcome oriented for the major program funds. The resultant measures are included with the Budget submission.

Consultation regarding the objectives and general direction of the Strategic Plan was held with House staff on June 6, 1997. A full final draft will be forwarded on July 14, 1997. At that time, it will also be placed on the Web Page for General comment.

RESPA—MORTGAGE BROKERS

*Question.* There has been a significant amount of litigation with regard to the requirements of the Real Estate Settlement Procedures Act and mortgage brokers. I understand that HUD was going to issue some interim guidance on mortgage brokers practices to relieve the confusion in the industry while final regulations can be reviewed and issued. What is the status of the interim guidance and when will it be issued?

Answer. The Department has determined to issue a proposed rule to comprehensively address the treatment of mortgage broker fees under RESPA instead of issuing interim guidance. The proposed rule will provide a framework to end consumer confusion about the role of mortgage brokers and the fees which they receive. At the same time, the rule would afford mortgage brokers, who meet requirements under the rule, a reasonable degree of certainty about the legality of their fees. The rule is being completed by HUD. After final review within the Administration, it will be submitted to the House and Senate Banking Committees for 15 days of prepublication Congressional review. It will be published in the Federal Register approximately 3 weeks after submission.

CONCLUSION OF HEARINGS

Senator BOND. Well, no further questions for this session. We will recess the hearing. Thank you, Mr. Secretary.

[Whereupon, at 11:30 a.m., Tuesday, May 13, the hearings were concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]

# DEPARTMENTS OF VETERANS AFFAIRS AND HOUSING AND URBAN DEVELOPMENT AND INDEPENDENT AGENCIES APPROPRIATIONS FOR 1998

---

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, DC.*

## NONDEPARTMENTAL WITNESSES

[CLERK'S NOTE.—The following testimonies were received by the Subcommittee on VA, HUD, and Independent Agencies for inclusion in the record. The submitted materials relate to the fiscal year 1998 budget request.

The subcommittee requested that public witnesses provide written testimony because, given the Senate schedule and the number of subcommittee hearings with Department witnesses, there was not enough time to schedule hearings for nondepartmental witnesses.

### DEPARTMENT OF VETERANS AFFAIRS

PREPARED STATEMENT OF VERONICA A'ZERA, NATIONAL LEGISLATIVE DIRECTOR, AMVETS

Mr. Chairman, I am Veronica A'zera, National Legislative Director of AMVETS, The American Veterans of World War II, Korea and Vietnam. We are grateful to you and the committee for this opportunity to testify before you today. Neither AMVETS, nor myself, have received any federal grants or contracts during fiscal year 1997 or in the previous two fiscal years.

We view the Independent Budget as a factual analysis of the realistic funding required by the Department of Veterans Affairs to adequately carry out the many roles and missions designed to meet the needs of America's veterans. We urge this committee, the Congress and the administration to support the VA's efforts at reorganization and refocusing of it's health care delivery system by sparing the agency, and the veteran, from unreasonable reductions in order to balance the budget.

AMVETS' testimony today primarily addresses the National Cemetery System (NCS). America's National Cemetery System (NCS) has a long and proud history of service to America's veterans and their families. Many of the individual cemeteries within the system are steeped in historical memorabilia which represents the very foundation of these United States. The National Cemetery System, its land, its monuments, and the historical interments within are a national treasure that must be protected, maintained, and nurtured.

Unfortunately, despite NCS's continued high standard of service and despite a true need to protect and nurture this national treasure, and despite the administration's proposal for a $7 million increase in budget authority over fiscal year 1997 levels, we feel the system has been and continues to be under funded. The current and future requirements of NCS are simply not being adequately funded to meet the current or anticipated demands.

THE SYSTEM

The National Cemetery System (NCS) assumed its current posture as an independent benefit provider within the Department of Veterans Affairs pursuant to Public Law 93–43. Its mission is to provide deceased veterans and deceased active duty members of the armed forces, their spouses and certain dependents a last resting place of dignity based on their service to this country. For over 100 years, NCS has performed this mission and to date maintains some 2,148,000 gravesites for veterans and their dependents.

Veterans Service Organizations are concerned with the future of NCS due to the depletion of gravesites available in many of its cemeteries. While some facilities are able to accept the remains of those who chose cremation, the facts are as follows:

—Currently only 57 of the 114 (or 50 percent) national cemeteries remain open with burial plots.

—By the year 2000, it is projected that only 53 cemeteries will be accepting full casket first interments.

—During fiscal year 1996, NCS had approximately 360,000 gravesites available (that is 27,500 less than fiscal year 1995), with the ability to add 1.6 million additional grave sites on undeveloped land.

As the veteran population ages, the workload of the NCS will continue to increase in all program areas. Based on the 1990 census, annual veteran deaths are expected to peak at 620,000 in 2008. Given the current and projected death rates in the veteran population, NCS' capability will fall far short of requirements to provide burial spaces for those veterans who seek burial in a national cemetery. A veterans right to burial in a national cemetery was affirmed by Public Law 93–43, The National Cemeteries Act of 1973. We ask you, the lawmakers, to ensure that the dictates of that law are met, and that burial space is available for those veterans who request it.

It should be noted that historically only about 10 percent of eligible veterans seek interment in a NCS facility. Despite this seemingly low demand rate, if funding is not forthcoming for new acquisitions and development of existing land, the legal entitlement will be an empty promise, as veterans are denied access based on non-availability.

The non-availability of NCS burial sites is compounded when geographical limitations are considered. An example of geographical limitations is illustrated by the veteran and his family who live in San Francisco, California. The nearest available burial space for that veteran is available at San Jocuquin Valley, approximately 100 miles east of San Francisco. We, the authors of the IB continue to feel it practicable that every veteran have the availability of burial space in a national cemetery or state-supported veterans cemetery within 75 miles of his or her home.

On a more positive note is the projected opening of the new national cemeteries in Dallas, Chicago and Albany. Here again, the need for $1.8 million activation monies is paramount in fiscal year 1998. The IB also lauds the expansion of the Ft. Sam Houston and Arizona National Cemeteries. The projected funding of $9.4 million for Fort Sam Houston and $9.1 million for Arizona will provide burial space for veterans in Texas and Arizona for several decades to come.

NCS SHORTFALLS

Prior IB's have been complimentary of NCS's management in spite of the budget shortfall and understaffing they continue to incur. We may only hope they are able to meet future challenges as they face a shortfall of 276 FTE's (Full Time Employee Equivalents) in fiscal year 1998. NCS has, for too many years, been forced to delay new equipment purchases and maintenance and repair projects, making it difficult to provide basic services at an acceptable level. NCS anticipated that by the end of fiscal year 1994 their equipment replacement backlog would be $4.8 million. Now, three years later, NCS is looking at an estimated backlog in obsolete equipment and equipment in need of repair of $6.5 million by the end of fiscal year 1997. This equipment maintenance backlog shortfall of fiscal year 1997 is a 35 percent increase in three short years. The problem continues to compound, and worsen. Less dollars, more deadline equipment, less efficient work, less service to veterans.

SECONDARY MISSIONS

The state grant program for veterans cemeteries continues to provide a cost-effective alternative in providing burial space for veterans. The IBVSO's are pleased that in fiscal year 1996 NCS provided grants to 11 states totaling $7.5 million. One way to ensure that veterans are provided a dignified burial is to ensure adequate fund-

ing of the grants program. We recommend that VA provide at least $5 million additional in such grants in fiscal year 1998.

NCS is projecting that they will process 351,000 applications for headstones or markers during fiscal year 1998. This, coupled with an estimated request for 250,000 Presidential Memorial Certificates, substantiates the need for improved ADP equipment.

ADP improvements, equipment backlogs on repair, maintenance, new equipment, staff position shortfalls, new and expanded facilities for burials, and the preservation of a national treasure, all require proper funding. The funding comes from the Congress and the Administration. When the veteran was asked to serve, he and she did so willingly, immediately, with pride, and without question. When the veteran or his/her family comes to the NCS to ask for his final entitlement, a dignified burial space, NCS should have the resources to provide that space willingly, immediately, with pride and without question. Not "sorry, no vacancy." The Congress and the president documented, in Public Law 93–43, the American peoples' wish that a veteran be provided a dignified last resting place. The only way to ensure that happening is for Congress to authorize and appropriate the needed resources.

Therefore our recommendations are:

—VA should add at least 60 more FTE's over the 1997 level to cover incremental workload increases and maintain current services. Although 60 FTE's are required just to maintain the current line of services, it is important for you to note that there is still a shortfall of nearly 270 FTE's.

—VA should provide at least an additional $4 million in funding to reduce equipment backlog.

—The IBVSO's again ask VA to begin a feasibility study to promote a second national cemetery to ease the demand for space at Arlington National Cemetery. While the IBVSO's understand that it is not possible to duplicate the national appeal of Arlington, the VA should pursue a second site of national significance properly promoted and placed. Ft. Myer and Henderson Hall offer potential land mass for expansion of Arlington, as an alternative to this recommendation.

—VA should aggressively pursue an open cemetery in each state.

—VA should actively expand existing national cemeteries wherever possible.

—VA should recommit to a policy of an open national cemetery within 75 miles of 75 percent of America' veterans.

—VA should seek relief from historic preservation requirements at NCS facilities wherever appropriate.

These recommendations cost out at approximately $85,550,000 which represents a $1,367,000 increase over the fiscal year 1998 VA budget request of $84,183,000.

Mr. Chairman this concludes my statement.

---

PREPARED STATEMENT OF LARRY D. RHEA, DEPUTY DIRECTOR OF LEGISLATIVE AFFAIRS, NON COMMISSIONED OFFICERS ASSOCIATION OF THE UNITED STATES OF AMERICA (NCOA)

DISCLOSURE OF FEDERAL GRANTS OR CONTRACTS

The Non Commissioned Officers Association of the USA (NCOA) does not currently receive, nor has the Association ever received, any federal money for grants or contracts. All of the Association's activities and services are accomplished completely free of any federal funding.

The Non Commissioned Officers Association of the USA (NCOA) appreciates the opportunity to testify on the appropriation levels for the Department of Veterans Affairs for fiscal year 1998. The Association thanks the Distinguished Chairman for holding this hearing and trusts that our testimony will contribute in a meaningful way to the deliberations undertaken by the Subcommittee.

The Administration has described the fiscal year 1998 budget for veterans as "historic and innovative." It certainly is that Mr. Chairman; however, the innovative trend set forth in this budget is deeply troubling to NCOA on several fronts. In NCOA's view, the trend established by this budget for fiscal year 1998, and continuing in the out-years, is innovative in one tragic respect—relying on states and the private sector to fulfill in the future what should be a federal responsibility. Arguably, there are probably many things done by the federal government that are more appropriately state and private sector responsibilities. NCOA respectfully submits that taking care of the medical needs of the Nation's warriors is not one of those responsibilities.

When taken in its entirety, the Administration's budget starts veterans down a path that is fraught with even more uncertainty than under current circumstances.

NCOA implores the Distinguished Chairman and Members of the Subcommittee to not take steps in fiscal year 1998 which could produce disastrous results and from which recovery would be very difficult, if not impossible.

NCOA is deeply concerned with two areas of the President's budget proposal for veterans for fiscal year 1998—veteran health care and post-service education benefits.

HEALTH CARE DISCUSSION

The Administration has recommended that veterans health care appropriations be reduced by $54.6 million from the level enacted by Congress for the current year. Further, the Administration's proposes to flat-line DVA health care dollars at that reduced level, $16.9 billion, through the year 2002. The President's budget also calls for an actual reduction of $28 million below the level appropriated for fiscal year 1997 in VA research programs which would further erode VA's ability to deliver clinical services to veterans.

The health care budget for veterans is further complicated by the Administration's reliance in the future on two separate legislative initiatives that have yet to even be considered by the 105th Congress. The first would permit VA to collect and retain MEDICARE reimbursements from the Health Care Financing Administration. The second would allow VA to retain monies recovered from veterans with private insurance as well as reimbursements from other third-party payers. Presently, payments received from private insurance and other third-party payers goes to the Treasury for deficit reduction. VA is permitted to retain the administrative costs associated with medical care cost recovery.

In fiscal year 1998, the Administration estimates that $591 million will be collected from MEDICARE and third-party insurance to offset their actual reduction in appropriations for veteran health care. In the out-years, to meet increased patient demand, the budget proposal estimates even greater reliance on recoveries to compensate for their flat-line appropriation. By the year 2002, the Administration has set a goal of having 10 percent of veteran health care costs to be met through such recoveries. At the same time, VA intends to increase patient workload by 30 percent while achieving 20 percent greater efficiency in the delivery of services.

NCOA has and continues to aggressively support MEDICARE reimbursement and allow VA to retain MEDICARE and third-party monies within the system. NCOA has always viewed these receipts as a supplement to, not a replacement for adequate annual appropriations. In NCOA's view, the rosy scenario "hoped for" in the budget proposal is simply not achievable. VA's track record on medical care cost recovery, while improved in recent years, still leaves a lot to be desired. VA originally projected recoveries in fiscal year 1997 at $736 million; they now acknowledge that they will be nearly $200 million short of their earlier estimate.

The proposed outside revenues are not only dependent on Congress enacting enabling legislation, the reliability of the estimates are questionable and emerging health care market forces will make the task of recovery even more difficult. The VA's own strategic plan for medical care cost recovery notes that there is not methodology that can accurately predict the collection potential. As VA restructures to a primary care, outpatient system, the difficulty in recovering costs will be multiplied many times over. Today, medical care cost recovery must generate approximately 20 outpatient bills to produce the equivalent recovery of a single inpatient bill.

On April 24, 1997, the Senate Veterans Affairs Committee provided their views and estimates on the fiscal year 1998 budget for veterans benefits and services. Essentially, the Committee agreed with NCOA's preceding comments by stating:

"This budget proposal, even assuming the enactment of MCCR and Medicare subvention legislation, does not allow even for slow growth in real terms. The Committee, therefore, remains very concerned that VA's health care spending projections, particularly in the out year's, are unrealistic. The fact that this year's out-year projections differ substantially from those presented by the Administration last year, as the Secretary then stated they would, does not increase the Committee's confidence that VA out-year projections can be viewed as real planning tools.

The Committee notes one other concern. VA is currently initiating a medical care resource reallocation plan which will result in actual cuts in some regions of the Nation. The Committee is of the view that resources should be allocated equitably so that similar veterans will have similar access to VA care without regard to the region where they live. VA's health care funding must grow sufficiently to allow such allocations without undue disruption in any region."

The Senate Committee on Veterans Affairs further stated: "The better course, in our judgement, would be for VA's fiscal year 1998 projected medical care spending

needs—at minimum, $17.573 billion, as set forth in the President's budget—to be financed fully with appropriated funds. In our view, the goal of balancing the budget could still be met while allowing VA medical care appropriation to increase to at least that amount."

RECOMMENDED HEALTH CARE APPROPRIATION

Both the Administration and the Senate Veterans Committee seem to agree on the amount needed for veteran health care in fiscal year 1998. The manner to achieve that amount is where the question lies. The Administration wants to rely on $591 million in outside sources and revenues, that requires enactment of legislation, to fund health care at $17.5 billion. The Senate Veterans Committee has recommended an appropriated amount of $17.55 billion with no reliance on outside sources in fiscal year 1998. And, for your information Mr. Chairman, the House Veterans Affairs Committee has recommended VA medical appropriations at $17.6 billion.

With the passage of last year's health care eligibility reform legislation, Congress projected a funding need for veteran health care in fiscal year 1998 at $17.9 billion. In the strongest possible terms, NCOA urges this Subcommittee to: (1) reject the Administration's fiscal year VA medical care proposal; and, (2) meet or improve upon the $17.55 billion recommendation of the Senate Veterans Affairs Committee. NCOA believes every effort should be made to achieve the $17.9 billion target set last year.

Further, the Senate Veterans Committee has recommended restoration of the critical medical and prosthetic research appropriation. The Administration has proposed spending in this area at $234 million in fiscal year 1998, $28 million less than enacted for fiscal year 1997. The Veterans Committee in the Senate has recommended a level of $280 million for fiscal year 1998. NCOA urges the Subcommittee to adopt or improve upon the recommendation of the Senate Veterans Committee for VA medical and prosthetic research programs.

EDUCATION DISCUSSION

No other area of the President's budget has incensed this Association more than the non-proposal for veterans education. The Administration's budget recommends no improvements to veterans education benefits although the Administration seeks record levels on non-veteran education spending during fiscal year 1998. Neither did the Administration propose any improvements for the education programs available to certain survivors of service-connected disabled veterans.

In NCOA's view, veteran education benefits should be the touchstone by which all other education programs are measured. In this Association's view, if anyone has earned an increase in benefits, the very first place to start is the veteran benefit which now covers only 40 percent of the cost at a public four-year college or university. Irrespective of what Congress may do on other programs, a substantial increase in the basic Montgomery GI Bill benefit is called for as being long overdue.

NCOA understands that the Chairman and Ranking Member of the House Veterans Affairs Committee will be seeking a 10 percent increase in the MGIB basic benefit, which now is $347 per month for a veteran with two years of honorable service. A similar initiative has not yet been offered in the Senate. While NCOA will aggressively support the efforts of the Chairman and Ranking Member, the Association is not timid in pointing out that, if the increase were enacted, the benefit will remain woefully deficient. If an AMERICORPS volunteer can be guaranteed $5,000 per year for education, the individuals who provide for the Nation's security have earned and deserve a better deal than what they are getting.

CONCLUSION

In closing Mr. Chairman, let NCOA be clearly understood. The Association appreciates fully the difficult task before you. It is important though that NCOA repeat what we have said many times during the last several years before numerous Committees and Subcommittees in both the House and Senate.

The veterans of this Association are more than willing to do their fair share to assist in the effort to balance the federal budget and deal with the national debt. An examination of Federal budgets for the past ten or fifteen years will reveal that veterans have indeed been doing their share. User fees have been added and increased, COLA's have been frozen and/or rounded down, and, pensions for some veterans have been nearly eliminated are but a few examples of what such an examination would reveal.

The President's budget for fiscal year 1998 contains a number of cost-saving provisions which have been previously approved and which were contained in the Bal-

anced Budget Act of 1995. Rather, than extend these OBRA cost-saving provisions through 1998, the Administration proposes to make these provisions permanent.

NCOA does not oppose extending these cost savers in fiscal year 1998 although the Association is not joyous about that prospect. NCOA is adamantly opposed, however, to making those savings provisions permanent. The pattern of sacrifices and restraint in veterans budgets, over the last ten years alone, substantiates that veterans programs are not among the culprits in federal deficits. The Administration's fiscal year 1998 veterans budget and the recommendations of the Senate Veterans Affairs Committees continue that same pattern of restraint in fiscal year 1998 and beyond.

Until the pattern of unrestrained growth in other budget categories is effectively dealt with by the Congress, NCOA will never agree to locking-in permanently onerous fees and penalties on veterans benefits—to agree to do so would be sheer foolishness on the part of this Association. Currently, veterans have little leverage in the budget reconciliation process. NCOA is unwilling to permanently give away the few bargaining chips that veterans have remaining in the scoring process.

Veterans have been and will continue to pull their fair share of the load. Frankly, in the opinion of NCOA, it is about time that a concerted "fair share" be imposed on all other non-defense, discretionary budget categories.

Thank you.

---

## PREPARED STATEMENT OF RICK SURRATT, ASSISTANT NATIONAL LEGISLATIVE DIRECTOR, DISABLED AMERICAN VETERANS

Mr. Chairman and Members of the Subcommittee: On behalf of the more than one million members of the Disabled American Veterans (DAV) and its Women's Auxiliary, I am pleased to present DAV's views on the President's fiscal year 1998 budget request for the Department of Veterans Affairs (VA).

As you know, the combined views of DAV, AMVETS, PVA, and VFW are provided in the Independent Budget (IB) we publish each year. The co-authors of the IB appreciate the recognition our views have received from this Subcommittee in the past. We hope our analyses of VA's funding needs will be helpful to you. We believe our recommendations accurately reflect the resources necessary to enable VA to provide an acceptable level of benefits and services for our Nation's 26 million veterans and their dependents and survivors.

The DAV has responsibility for the sections of the IB pertaining to Benefit Programs, General Operating Expenses (GOE), and the United States Court of Veterans Appeals. Our testimony will primarily focus on these appropriations.

### THE PRESIDENT'S BUDGET

Of the $41.1 billion budget authority the Administration requests for VA, $40.05 billion would be from appropriations. A total appropriation of $846.4 million is requested for General Operating Expenses (GOE). Of this, $660.8 million is for the Veterans Benefits Administration (VBA), and $185.6 million is for General Administration.

Under the Administration's budget, VBA would lose 543 FTE (full-time employee(s) or equivalent(s)) from the fiscal year 1997 level, reducing the total from 11,943 to 11,400. In General Administration, there would be an FTE reduction of 71, to 2,292 from 2,363. The reduction in VBA's FTE is to be offset by increased operational efficiency and the impact of various restructuring initiatives designed to improve service to veterans and reduce the overall costs of operation in the future. VBA projects that it will continue its trend of improving its claims processing timeliness and reducing its case backlog in fiscal year 1998. The Board of Veterans' Appeals (BVA) would be authorized 494 FTE for fiscal year 1998, a reduction of 6 FTE from the 500 authorized in fiscal year 1997.

For medical care, the Administration requests $17.6 billion in budgetary resources, a $536 million increase over the fiscal year 1997 appropriation. This amount would include an appropriation of $16.959 billion, $468 million retained from third-party collections, $68 million reimbursement from VBA for rating examinations, and $78 million from sharing and other reimbursements. This assumes legislation allowing VA to retain third-party collections of $591 million minus $123 million for the administrative costs of collection. Employment in the Veterans Health Administration (VHA) will decrease by 2,135 to 190,835 FTE. With these resources, VHA expects to provide care to 3.1 million unique patients, an increase of 134,914 over fiscal year 1997. Through increased efficiency and with Medicare subvention, VHA's 5-year plan, beginning with fiscal year 1998, includes the goal of reducing the per-patient health care cost by 30 percent, serving 20 percent more veterans,

and increasing the portion of the operating budget obtained from nonappropriated sources to 10 percent.

A total of $79.5 million is requested for major construction. Funds are included for structural corrections to the Memphis, Tennessee, Medical Center to meet current seismic standards; beginning development of a new cemetery at Cleveland, Ohio; expansion of the cemetery at Fort Sam Houston, Texas; and additional gravesite development at the National Memorial Cemetery of Arizona. For various minor construction projects, $166.3 million is requested. The Administration's budget also proposes legislation to change the definitions of minor and major construction to raise the minor construction range from $300,000 to a $500,000 maximum.

The request for the National Cemetery System is $84.2 million, an increase of $7.3 million. Fifty-two additional FTE are requested. The Administration is proposing legislation to change the VA role in the cemetery program. Under the proposed plan, VA would discontinue construction of new VA cemeteries after the addition of the Cleveland cemetery. It would make the grant program for construction of state cemeteries more attractive by increasing the Federal share of the construction costs from 50 percent to 100 percent and by making initial equipment costs eligible for up to 100 percent of funding by Federal grant. Thereafter, states would be responsible for the operation expenses.

While VA projects that services will not suffer with the recommended staffing reductions in VBA and VHA, the depth of these cuts cause us concern that VA may be overly optimistic, especially considering the already existing strains on the system. The IB recommended that staffing levels be maintained at least at current levels for VBA.

The DAV supports the concept of allowing VA to retain and use collections from third parties to strengthen its health care system to permit it to provide more cost-effective treatment to more veterans. However, the Administration's proposal does not direct these collections toward improvement of the efficiency and capacity of VA's health care delivery system, but merely serves to relieve the Government of part of its obligation to provide the resources necessary to care for our Nation's ill and disabled veterans. Funds collected from the private sector and Medicare should not be used to supplant appropriations. Moreover, even with the inclusion of third-party collections in VA's "budgetary resources," health care funding is increased only 5.4 percent over 5 years. We are concerned that, even with optimum increases in efficiency, this amount will be insufficient to maintain an acceptable level of service. With the effects of inflation, a 5.4 percent increase over a 5-year period will quite probably not even represent a modest real increase but rather a substantial reduction in health care funding for veterans. In addition, under the Omnibus Budget Reconciliation Act (OBRA), some of the third-party collections have already been assigned to deficit reduction. It would be even more of an inequity if these OBRA funds were to be replaced from elsewhere in VA's budget at the expense of further reducing benefits and services to veterans.

## INDEPENDENT BUDGET RECOMMENDATIONS

In the Benefit Programs section, the IB presents some of the authors' priority legislative goals for benefit improvements. Also included is our argument against proposals to means test, eliminate, offset, tax, reduce, and restrict eligibility for disability compensation.

In the GOE section, the IB authors have addressed VBA's Business Plan, which, in accordance with the Government Performance and Results Act of 1993 (GPRA), outlines VBA's strategy and associated resource needs for accomplishing its mission of providing benefits and services to veterans and their families in a responsive, timely, and compassionate manner in recognition of their service to the Nation.

Just as veterans enjoy a special status and are highly deserving of VA benefits, they are deserving of an effective benefits delivery system to ensure that benefits are dispensed in a manner to be meaningful and fully accomplish their purposes. The GOE portion of the budget covers the administrative costs of delivering VA benefits and services. VBA is responsible for administering VA's nonmedical programs. These are compensation and pension, education, loan guaranty, vocational rehabilitation and counseling, and insurance.

VBA's Business Plan is comprised of its overall direction and policy and its primary goals and strategy for administering all of its benefit programs but also integrates more specific multi-year plans for each of its five component benefit programs, referred to as its five business lines. In addition to serving as VBA's operational "blueprint" for its business processes and reforms, and as its "road map" to achievement of its long-term goals, this comprehensive plan is also intended, under GPRA, to serve as an aid to Congressional oversight and budgetary decisions. To

each of the five Business Line Plans—which form the context and specific bases for the Administration's budget request—we added our own recommendations and discussed our concerns where we question or disagree with VBA's approach. The IB includes analyses of the activities, performance, and needs of each of the services that administer VBA's business lines as well as two of the functions funded under General Administration, BVA and the Office of the General Counsel (OGC). Although the Court of Veterans Appeals is not part of VA, the IB contains a section on its operations because of its inextricable role and impact in veterans' claims and VA's processes. Overall, we believe that the VA plan and the budget request are tailored to achieve an optimum level of services and an optimum use of limited resources. We generally support this plan and, in the IB, urged that Congress provide VA with the resources necessary to effectuate its strategy for the timely and efficient delivery of benefits and services. The area of greatest concern continues to be the compensation and pension claims process.

In recent years, VBA has been challenged by increasing claims backlogs and resulting long delays for veterans and other claimants awaiting decisions on claims. With an aging veteran population, the need for prompt service has become greater at a time when, until recently, claims processing times were becoming progressively longer. Backlogs and consequent protracted delays result in increasing numbers of disabled veterans in need of VA assistance dying before that assistance is provided. Other veterans with immediate needs suffer through long delays without their needs being met.

In response to concerns about the quality of its service to its customers, VA established a Business Process Reengineering (BPR) Office in November 1995 and the BPR team issued a report of its findings and recommendations in August 1996. These recommendations were incorporated in Compensation and Pension Service's (C&P's) Business Line Plan. This plan includes measures to correct the following five core problems identified in the BPR study: inadequate communications and outreach; lack of individual accountability; emphasis on production and timeliness instead of quality; inadequate information technology support for process; and complexity of rules and regulations.

The plan acknowledges that poor quality and the resulting necessity to rework claims is the primary problem accounting for the overload on the system. The plan builds on the strengths of the current successful hearing officer program—personal interaction and more thorough review. The current "assembly line" process is replaced with a new integrated claims process that allows direct interaction between the veteran and a more highly skilled and trained adjudication team, with one person on the team responsible for ensuring satisfactory completion of all actions related to the claim. A separate post-decision review process will allow a dissatisfied claimant prompt access to remedial action and a "second look" by a hearing officer, (redesignated post-decision review officer). The post-decision review officer will have authority to (1) change the decision on the basis of the current record, if warranted, (2) undertake additional action toward favorable resolution, or (3) prepare the case for BVA review if revision of the decision or further action is not indicated. Quality—and thus efficiency—and customer service will be the primary goals, supported by training and a certification process and better quality review and accountability mechanisms. We believe that the Business Line Plan for C&P presents a solid, well-reasoned, and well-supported strategy for resolving the problems that have for the past several years plagued VBA and have been at the center of attention of the Congress, VA, and the veterans' community.

From our knowledge of VBA's operations and our review of VBA's Business Plan as included in VA's budget submission, the four veterans organizations co-authoring the IB present the following added recommendations for the activities funded under the GOE appropriation:

*Compensation and Pension*

Congress should endorse and support C&P's BPR plan as set forth in its GPRA Business Line Plan. Congress should provide VA with the resources necessary to accomplish all components of this plan, namely funding for training and associated personnel costs, information technology improvements, and other related costs. However, Congress should reject recommendations that VA revise its rules to negate the Court's enforcement of claimants' rights as contained in current rules. Congress should, through its oversight functions, closely scrutinize VA rulemaking to ensure that it is not undertaken to erode or undermine rights VA claimants currently enjoy and to ensure that VA does not continue to make rules without involving its customers.

Should it become necessary to protect VA claimants' procedural rights, as have been provided in long-standing VA regulatory provisions, Congress should codify

into statute provisions which VA shows an intent to rescind, and Congress, if necessary, should amend the Secretary's general rulemaking authority to require means for public participation in rulemaking that impacts upon VA customers.

Congress should enact the legislative changes recommended by C&P to carry out simplification of VA programs, namely, de novo review authority for Post-Decision Review Officers and pension simplification.

C&P's Business Line Plan should be revised to include more concrete, defined strategies for obtaining improvements in quality of decisionmaking, namely through performance standards that focus primarily on quality criteria. To obtain quality in decisionmaking, VA must install an effective quality assurance infrastructure, VA must have quality measurement criteria that correspond to the requirements of law for a complete and legal adjudication, and VA must have a means for effective enforcement of quality and performance standards among its decisionmakers through an accountability process that includes strong incentives for quality work and strong disincentives for noncompliance with quality standards.

VA should promptly institute an aggressive new training program to instruct adjudicators on the mandatory nature of case law and in its use and applicability. This training should be complemented by a process incorporating a chain of accountability for proper and legal claims decisions, with monitoring for compliance and quality control, along with studies of appellate decisions to identify problem areas. Management should take necessary steps to bring about a renewed institutional and individual adjudicator commitment to VA's fundamental guiding principles for the administration of benefits, such as broad and liberal application of the law, resolution of reasonable doubt, and award of all benefits to which entitlement may be established.

To confront rating boards with the reality of their errors, to instruct them in proper interpretation and application of law, to provide data to measure performance and enforce accountability, and to aid in identifying areas where training is most needed, BVA decisions should specify regional office errors accounting for the different outcome on appeal or necessitating remand.

If VA fails to voluntarily revise the manner in which BVA decisions are written, Congress should amend 38 U.S.C. § 7104(d) to expressly require that the Board specify the basis for affirming the decision of the agency of original jurisdiction or specify the errors accounting for the Board's reversal or remand.

*Education*

Congress should provide Education Service the resources necessary to improve accessibility, services, accuracy, and efficiency as envisioned in its GPRA Business Line Plan.

*Loan Guaranty*

Congress should provide the resources necessary for Loan Guaranty to fulfill the service goals in its Business Line Plan, including the information technology improvements shown to be essential to the plan; however, Congress should not reduce Loan Guaranty's FTE authorization below current levels inasmuch as staffing reductions are incompatible with the planned improvements for customer service under GPRA and are indeed essential to maintaining current levels of service quality and timeliness.

*Vocational Rehabilitation and Counseling*

To prevent further strains on Vocational Rehabilitation and Counseling Service (VR&C) and reversal of recent gains, current FTE levels should be maintained until the effects of reorganization can be evaluated as to staffing needs. Subsequently, staffing considerations should include a plan to return to full use of in-house counseling and routine rehabilitation services because they are more cost effective than contract services.

VBA should include VR&C's immediate and future needs in its development of automated support systems.

Disabled Veterans Outreach Program specialists employed at the local Job Service Office should be part of the case management system for vocational rehabilitation.

The vocational rehabilitation Design Team should promptly finalize its report and forward it to the Under Secretary for Benefits and to the Secretary, if appropriate, for implementation.

*Insurance*

Insurance Service should be provided the resources necessary to fulfill its customer service goals.

Because of changes in VA's accounting methodology beginning with the fiscal year 1997 budget, Veterans Services is no longer funded as a separate entity under the

budget structure. Its functions are viewed as support and are considered overhead expenses, which are apportioned among VBA's business lines. Nonetheless, even with the changes in accounting methodology and the consolidation of functions, Veterans Services remains a discrete operational entity within VBA. Given the necessity for personnel devoted solely to dissemination of general benefits information and assistance across the varied benefits programs at various field and satellite locations, it seems apparent that VA will find it necessary to retain a service dedicated to those purposes. We believe that Veterans Services is a vital part of VBA's benefits delivery system, and we discuss it separately in the IB because of its importance. Our recommendation for Veterans Services is:

—VA and Congress should continue to recognize that a strong and viable Veterans Services component within VBA is essential to the satisfactory delivery of veterans' benefits, and Congress should provide Veterans Services with the resources necessary for it to perform all of the many important tasks with which it has been charged.

Similarly, funding for information technology is no longer separated from the VBA's product lines under the current budget structure. Again, because of the importance of this program, the IB includes separate discussion and a recommendation for this component of VBA's operations:

—Congress should provide funds to maintain VBA's existing data systems while new systems are phased in; Congress also should provide all funding necessary to meet VBA's future responsibilities and to implement its new business processes.

From its analysis of the processes, performance, and needs of BVA and OGC, the IB provides several recommendations. Two recommendations aimed at improving the Board's operations and decisions:

—Congress should earmark sufficient funding for BVA training programs.

—VA should change 38 C.F.R. §19.5 to properly instruct that BVA is bound by VA manuals, circulars, and other directives issued by VA.

Given OGC's workload, the IB includes the following recommendations for additional personnel to meet OGC's needs:

—OGC should be authorized 12 additional FTE to handle the increase in workload before the Court of Veterans Appeals.

—OGC should be authorized 10 additional FTE for its alternative dispute resolution program.

—OGC should be authorized 15 additional FTE for procurement and leasing functions to minimize VA's liability and reduce litigation and claims costs.

Last year, there was some consideration of reducing the number of judges on the Court. Such action would be inadvisable for several reasons, including the increasing rate of appeals in the last year. The four veterans organizations presenting the IB oppose any reduction in the number of judges on the Court.

One of the problems the Court has faced since its inception is a large pro se docket. Approximately 74 percent of appellants before the Court are unrepresented when they file their appeals. That figure is reduced to 50 percent through the efforts of the Pro Bono program. The IB authors support continuation of this program. The IB recommends:

—Legislation to codify into law the Veterans Consortium Pro Bono program.

—Appropriation of adequate funds to operate the program.

The Court seeks improvement in its retirement and survivor program to make it comparable to other Article I courts. Also, regarding its retirement plan, the Court seeks early retirement provisions for associate judges to avoid retirement of all judges near the same time, when their terms expire. The DAV supports these changes.

### CONCLUSION

This concludes the DAV's testimony on the fiscal year 1998 budget. We appreciate the opportunity to present our views on this most important matter, and we thank this Subcommittee for its continuing support of this Nation's disabled veterans.

---

## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

### PREPARED STATEMENT OF CHARLES L. CALKINS, NATIONAL EXECUTIVE SECRETARY, FLEET RESERVE ASSOCIATION

Mr. Chairman and Members of this distinguished Subcommittee: I am Charles L. Calkins, National Executive Secretary, Fleet Reserve Association (FRA). The Association is Congressionally-Chartered and has been serving the Sea Services since

1924. Current membership is more than 162,000 active duty, reserve and retired Navy, Marine Corps and Coast Guard personnel, veterans all. FRA is the only organization exclusively representing the more than 500,000 enlisted members of those three branches of the Armed Forces and it is my privilege to bring their message to you regarding fiscal year 1998 Department of Veterans Affairs (DVA) appropriations.

The Administration is requesting nearly $41 billion for DVA in its fiscal year 1998 Budget. This includes $21.7 billion for Veterans Benefits, $17.9 billion for Veterans Health, $246 million for construction and a total of $94 million for the National and State Cemetery Systems. Although, there are other items in the request, only those mentioned herein are of paramount concern to the Association.

VETERANS BENEFITS

*Compensation and pensions*.—FRA supports the Administration's request of $19.7 billion for this program. It does, however, seek additional funds in the event the oversight committees agree to amending OBRA 1990. FRA believes it unfair to further deny the reinstatement of Dependency and Indemnity Compensation (DIC) to widows whose subsequent spouses either passed away or the marriage ended in divorce. The Association has made its position on this issue known to the oversight committees.

*COLA's*.—The Association fully endorses funding full cost-of-living adjustments to Veterans Compensation and DIC. FRA does not support a decrease in COLA's based on the presupposition that the CPI is inflated, particularly when it has not been supported with sufficient scientific data. The Association believes that the Consumer Price Index (CPI) provides the best guide for determining annual COLA adjustments.

*Montgomery GI Bill (MGIB)*.—FRA strongly supports the House Committee on Veterans Affairs (HCVA) request for an additional $175 million to improve veterans education programs. The MGIB program is sorely in need of improvement. Current benefits are running far below the annual cost of undergraduate education. And noteworthy is the fact that if the President's request for a 10 percent increase in Pell Grants is approved, the program will provide about $123 less each year than what the MGIB pays for a nine month school year. HCVA found that the current AmeriCorps education benefit of $4,725 per year for two years exceeds the earned MGIB basic benefit on a per school year basis by $1,602. The program needs to be enhanced if Congress, charged with raising an army and navy, wishes to attract quality young men and women to serve in the defense of this Nation and its citizens.

*VEAP conversion*.—Legislation was enacted last year to authorize military personnel enrolled in the Veterans Educational Assistance Program (VEAP) to convert to the MGIB. Unfortunately, the legal interpretation of what constituted an "active" VEAP account left thousands of service members out of the conversion since they no longer had funds invested in their VEAP accounts. Many of the Association's active duty members have expressed frustration because they were counseled by their respective services to close out their accounts. FRA urges this distinguished committee to appropriate additional funds to enable those frozen out of last year's program to convert to the MGIB in fiscal year 1998.

*Concurrent receipt*.—FRA and many of its sister organizations continue to urge Congress to halt the discriminating practice of requiring military retirees to waive retirement pay in order to receive VA disability compensation. FRA believes the current law should be amended and has so advised the proper oversight committees of its commitment to resolve the matter in favor of military retirees. In the event concurrent receipt is authorized for military retirees, FRA strongly recommends that this distinguished subcommittee appropriate the necessary funds to support the authorization.

VETERANS HEALTH ADMINISTRATION

The Administration's fiscal year 1998 DVA budget requests nearly $17.9 billion for Veterans' Health Care. This is almost $500 million above the fiscal year 1997 authorization, but close to $1 billion below the estimate recommended by the HCVA. FRA supports the HCVA request for an additional $117 million. Hopefully military retirees—surely one of the most deserving groups eligible for veterans benefits—will soon be placed in a higher priority for access to DVA health care facilities. FRA urges this distinguished Subcommittee to also consider additional appropriations for the expansion of access to VA medical facilities for military retired veterans.

In a recent statement to the oversight committees, FRA recommended that VA medical facilities, particularly at or near military installations being closed or

"downsized," be opened to military retired veterans on a priority immediately below that of service-connected disabled veterans. Access to the facilities would be at the option of the military retired veteran, if space is available.

The Association believes that every veteran should have access to VA facilities; however, FRA is acutely aware that the system is unable to physically or fiscally accommodate all veterans. FRA advocates an open door policy for military retired veterans who were promised free medical care for life in return for serving 20 or more years in the uniformed services. Today, that promise grows more shallow with each passing year.

It's a disgrace that some military retired veterans who are 65 years of age or older are being shut out of Military Treatment Facilities (MTF's). An estimated 35 percent are combat veterans of one or more wars. Less than that number have combat-related disabilities, but each honored their commitment to the Nation and is seeking only that which was promised. Unlike other federal employees, these beneficiaries must rely upon the civilian sector for services under Medicare. Those residing near military installations who counted on access to local MTF's, now closed under BRAC, failed to enroll in Medicare Part B and the only recourse for some may be accessing VA medical facilities. Hopefully, this distinguished Subcommittee will concur and allocate additional funds to accommodate these military retired veterans.

HEALTH CARE OFFSETS

The Administration's budget proposes that DVA be granted authority to retain collections from health insurance companies that pay for care provided in VA Health Care Facilities. These collections would be used as offsets for reductions in veterans medical care totaling about $468 million. FRA agrees with the distinguished HCVA Chairman, who warns that "future collections may not keep pace with the needs of aging veterans. Projections for future spending contained in the Administration's budget could lead to a drastic reduction in services to veterans who now depend on VA for their care." FRA supports the authority for the collection and retention of "third party" payments by DVA, but not as leverage to offset funds for veterans health care programs. Although, FRA questions whether collections will equal projected offsets, the Association urges this Subcommittee to fully fund the DVA's Health Administration request.

MEDICARE SUBVENTION

DVA is seeking authority to participate in a Medicare Subvention Demonstration Program. The plan would authorize DVA to provide health care to over–65 veterans enrolled in Medicare, and then collect discounted reimbursements from the Health Care Finance Administration (HCFA). FRA supports this demonstration program and urges the Subcommittee to do likewise.

CONSTRUCTION PROJECTS

FRA supports all construction projects listed in the fiscal year 1998 DVA budget request. Noteworthy is the Administration proposal to reduce funding to the State Home Program by $6 million. World War II and Korean Veterans are reaching their senior years and may require extensive long term care. Many suffer from mental illnesses, some as a result of participating in combat environments, relived again in their later years. For their families to place them in commercial nursing homes drains what little financial resources they may possess. According to Joshua M. Wiener of the Urban Institute, a long-term care insurance policy costs a 65-year old veteran $2,607 annually. At age 79, the initial policy purchase would be $8,492. With the median age of World War II veterans at 75, not many are able to afford this coverage.

Expanding the number of VA nursing homes and beds will provide necessary accommodations and care plus an atmosphere of camaraderie with other veterans. The State Home Program is doing a superb job in relieving the Federal government of much of this responsibility, and at only 65 percent of the cost of construction. This is a win-win-win-win situation for the Federal Government, DVA, the State, and the Veteran. FRA strongly endorses the $80 million HCVA recommends to assure that States continue to participate and maintain the partnership in caring for our aging veterans. An example of this is the Texas State Senate's recent authorization of construction for as many as four veterans-only nursing homes. Funds from the State Home Program Grants will build 300-bed facilities offering nursing care for up to 1200 veterans at one time.

CEMETERIES

FRA urges this distinguished Subcommittee to support the request for $84 million for the National Cemetery System (NCS) and $10 million for State Cemeteries Grants. NCS was established by Congress in 1973, an act endorsed and influenced by FRA. Today, the Association continues to support the System and seeks its expansion in order to accommodate many more of our aging veterans and family members who are expected to choose NCS burial plots for interment.

According to the HCVA, the NCS faces an increasing workload through fiscal year 2008 as the veteran population between fiscal years 1995 and 2010 decreases by 6 million (23 percent). By fiscal year 2008, the number of interments in NCS cemeteries is projected to reach 104,000 from a high of 71,786 in fiscal year 1996. Over the same period, the total number of graves maintained is expected to increase from 2.1 million to 2.5 million.

FRA believes the $7 million increase over last year's authorization is justified. The System must expand the number of cemeteries to accommodate the projected increase in interments over the next decade. This, in turn, requires additional FTEE as requested by the oversight committees. The Association continues to be an advocate for the NCS State Grant program. Financial grants to State veterans cemeteries relieve the Federal Government of full responsibility for funding additional cemeteries at the national level.

GRATEFUL ACKNOWLEDGMENT

Mr. Chairman, FRA appreciates this opportunity to present priority veterans programs of interest to its membership. FRA also supports and endorses all requests for appropriations that provide the Nation's deserving veterans with adequate and reasonable programs. The Nation would not exist today if it weren't for the service and sacrifices of our veterans. FRA again salutes this distinguished Subcommittee for its concern and commitment to our Nation's Veterans.

---

PREPARED STATEMENT OF KENNETH E. QUICKEL, JR., M.D., PRESIDENT, JOSLIN DIABETES CENTER, BOSTON, MA AND BLAKE E. WATERHOUSE, M.D., CEO, STRAUB CLINIC AND HOSPITAL, HONOLULU, HI

Mr. Chairman and Members of the Subcommittee, we appreciate this opportunity to present Joslin Diabetes Center's proposal to improve the access to and quality of health care for veterans and to reduce costs and increase savings in the near term for Veterans Affairs health care outlays by establishing a new paradigm of health care. We have met with policy officials and senior career professionals in the office of the secretary and with regional and state officials in the Veterans Administration and they are enthusiastic about our proposal.

Diabetes among veterans and their families mirrors the disease in the total overall population where the incidence of diabetes approaches 20 percent in the over 50 age group and diabetes and its complications comprise 25 percent of Medicare costs. In this societal context, the 1998 Department of Veterans Affairs covers 26,198,000 veterans:

—786,000 will be diabetics who generate in excess of $8 billion in health care costs annually
—nearly an equal number will have diabetes and not know it
—nearly 15,000 will die every year from diabetes and its complications
—between 1,400 and 3,600 will become blind each year
—5,000 will have amputations
—1,240 will develop kidney failure

Though Joslin is the world's largest and most comprehensive independent diabetes research and patient care institution, we would like to put ourselves out of business by finding a cure for diabetes through research, but we are not quite there yet. Joslin would like to share our technology and methods with other institutions and networks in order to limit the effects of diabetes. The personnel structure, telemedicine technology and medical network within the Department of Veterans Affairs offer a tremendous opportunity for the transfer of Joslin's technology and techniques to demonstrate the following:

—Early detection of diabetes and those who will develop diabetes.
—Prevention of the onset of diabetes for those prone to diabetes development.
—Improved care for those who have diabetes.

The real effects of this proposal offer improved quality of life for diabetes patients and significant cost savings for the Department of Veterans Affairs as soon as the

period 2000–2002, the period in which overall government expenditures must be reduced to meet balanced budget objectives.

Joslin proposes to work with Department of Veterans Affairs officials to develop a pilot program of diabetes detection, prevention and care. The objectives would be to institutionalize advanced techniques to detect diabetes and those most likely to develop diabetes within the Department of Veterans Affairs personnel and to implement improved prevention and care protocols for veterans with diabetes.

Early detection, intervention for prevention and improved care techniques can reduce projected health care costs in excess of $400 million throughout the Department of Defense/Veterans Administration population universe by the 2000–2002 period.

Specifically, we propose to institute pilot programs of detection, prevention, and care in two sites (New England and Hawaii) for a two-year demonstration, training and technology transfer exercise of Joslin's expertise utilizing existing Department of Veterans Affairs medical infrastructure, personnel and employee/patient base. The cost would be $2.5 million annually.

If patients with diabetes have eye examinations annually, current treatments can prevent 98 percent of the blindness of diabetes. Yet today, diabetes and diabetic retinopathy remains the leading cause of blindness in working age Americans. The primary causes for this dilemma are twofold, namely access of patients into mandated standards of care and patient and provider education.

Equally important, the Joslin health care treatment programs can significantly reduce complications of diabetes including cardiovascular disease, kidney disease, and peripheral neuropathy with subsequent significant economic savings.

We have developed the Joslin Vision Network and a Diabetes Eye Health Care Model to address these problems of access and education of diabetic eye disease.

The Joslin Vision Network is a telemedicine based platform that services remote eye examination stations using video imaging technologies that take advantage of low light level sensitive video cameras and industry standard telecommunication protocols. Thus, at a remote site, patients can have their retinal images rapidly and comfortably acquired using the low light level sensitive video technologies, have these images transmitted to a central site where the images and related medical information is stored and reviewed. The review of the images at the central reading center resource produces an assessment of the level of diabetic retinopathy and a recommended treatment plan which can be transmitted back to the patient contact site before the patient has left from their visit. This function is performed using the real time teleconferencing functions of the Joslin Vision Network. Operation of the Joslin Vision Network has been made simple so that retinal images and related medical information can be acquired by ancillary staff without any prior expertise in computers. Minimal training is required for recognizing regions of the retina that will need to be imaged for diagnostic purposes.

The Joslin Vision Network system can affect patient access, compliance, education and motivation using the Department of Veterans Affairs test bed sites. The objectives are to establish Joslin Vision Network remote imaging stations at these sites and to implement and evaluate services aimed at addressing concerns regarding patient access across geographic and cultural barriers, cost effectiveness of the service, establishing and assessing health professional and patient education programs specifically with respect to behavioral, compliance and motivational issues.

Using the Joslin Vision Network, all veterans can be screened for diabetes at the test sites. Diabetes detection will be performed using a methodology that does not involve drawing blood or taking urine samples, which was developed by Joslin and is currently being commercially produced by Spectra, an Atlanta based medical instrumentation company. The system provides a rapid assessment of diabetes without the need for a blood sample to be obtained and results from initial studies have shown that as a screening device for diabetes this system provides as good or better sensitivity than a fasting plasma glucose measurement.

Diabetes care will be available using the Joslin Vision Network and the Diabetes Outpatient Intensive Treatment program developed at Joslin Diabetes Center. We have had experience at Joslin in applying a new approach toward patients with diabetes. From the beginning, this approach focused on two major areas: improving clinical outcomes and doing so in a practical, resource-efficient manner. Our clinical outcome goals were improved metabolic control (and thus fewer long-term complications) and reduced patient stress from having to take care of their diabetes. The program was focused on individual flexibility and was developed in a way to be more efficient in utilization of both the patient resources and the health care resources. Rather than have the continued intensive involvement of health care providers throughout a patient's lifetime, we put the patient through a short (but intensive) course of training which not only leads to an immediate improvement in their meta-

bolic control, but gives them the foundation to take care of themselves in the future. We are also able to reduce the patient's diabetes-related stress. Training the patients to care for their own diabetes, seeking other input when they need it, is more appealing to the patient, more efficient in use of resources in the long-term, and produces good results.

The Joslin Vision Network provides the technology structure and program for the Joslin Diabetes Eye Health Care Model and the Joslin Diabetes Outpatient Intensive Treatment program so that people with diabetes can closely monitor their disease and appropriately trained medical personnel can provide timely treatment to better control of glycemia, hypertension and cholesterol to alleviate and eliminate life threatening complications.

The two proposed pilot programs would be expected to demonstrate significantly improved detection, prevention and care techniques for diabetes patients incorporated within the Department of Veterans Affairs medicare/health arena, resulting in reduced costs, improved patient access and quality of life and increased personnel productivity.

Thank you for this opportunity to testify. We would be pleased to answer any questions you might have.

---

## PREPARED STATEMENT OF THE AMERICAN HEART ASSOCIATION

The non-profit American Heart Association, powered by 4.2 million volunteers in virtually every community throughout the nation, is alarmed that the federal government, through its Department of Veterans Affairs Medical and Prosthetic Research program, is not devoting sufficient resources for medical research on America's No. 1 killer—heart disease—and on America's No. 3 killer and leading cause of permanent disability—stroke.

More than 57 million Americans of all ages suffer from heart attack, stroke and other cardiovascular diseases. The absolute number of Americans with heart disease and stroke is expected to increase dramatically with the aging of the "baby boomer" generation. While heart disease and stroke occur at all ages, they are most common in Americans over age 65—an age group that is now about 13 percent of the U.S. population and will be 20 percent by year 2010. By the year 2010, the percentage of veterans over 65 years of age will be about three times that of the general population or 42.5 percent of the veteran population. The VA's planning models recognize that its aging patient population demands more care. More than 4.49 million or 16.4 percent of the veterans population reported suffering from "heart trouble" in the 1992 National Survey of Veterans.

Heart attack, stroke and other cardiovascular diseases often begin in childhood and progress through mid-life. Thus, research efforts must be targeted at populations of all ages.

Thanks to advances that already have occurred in defining and countering risk factors for heart disease and stroke and in the treatment of these and other cardiovascular disease, more Americans are surviving heart attack and "brain attack" (stroke), and in many cases are developing these diseases at later ages than did their parents or grandparents. Due to these accomplishments made possible by previous investment of funds for research by the federal government and the American Heart Association, heart disease and stroke have evolved into chronic—or long-term—health problems much like diabetes and arthritis. No longer does a heart attack or stroke necessarily mean immediate death. But, they usually can mean long-term disability, requiring costly medical attention, and loss of productivity and quality of life. Over the last 20 years there has been a dramatic increase in the indicators of prevalence of heart disease and stroke. This situation will worsen in the 21st century.

Cardiovascular diseases already are a staggering burden to our nation's health care system consuming about 1 out of 6 health care dollars, with a price tag in medical expenses and lost productivity of $259 billion per year. No other disease costs this nation so much money, and the amount is expected to increase dramatically with the growth of the senior citizen population and as a consequence of the relatively recent trends in all ages of our population—but particularly in the young—of smoking, obesity and physical inactivity, which are among the several risk factors for heart disease and stroke.

The American Heart Association challenges our government to invest additional funds in cardiovascular disease research. Our government's response to this challenge will help define the health and well-being of citizens in the next century. We have a choice between

—a nation of physically and mentally healthy veterans and other citizens, capable of enjoying an active, productive life, living as independently as they wish late into their lives; or

—a population of frail elderly veterans and other citizens, disabled by stroke and congestive heart failure the latter too often the end-result of heart disease.

The AHA places its major emphasis on research. Since 1949 the AHA has invested almost $1.5 billion in research to increase knowledge about heart attack, stroke and other cardiovascular diseases. More than 31 percent of the AMA's fiscal year 1995–1996 expenditures support biomedical research.

Our ability to combat heart attack, stroke and other cardiovascular diseases correlates directly with the level and quality of overall support for basic and clinical research and prevention efforts. Although the AHA will continue to commit increased resources toward research, larger efforts by the federal government are essential to win the battle against cardiovascular diseases. A significant increase in funding for federal biomedical research is critical for continued progress.

The Department of Veterans Affairs Medical and Prosthetic Research program plays an important role in cardiovascular research and deserves the strong support of Congress. In fiscal year 1996, VA support for research on heart disease was $21.1 million (a 4.4 percent reduction from fiscal year 1995), accounting for 8.2 percent of the VA's appropriated budget. VA-supported stroke research represented $2.4 million or 1 percent of the VA's appropriated budget. In addition to its own program, the VA administers an additional $26.7 million in heart research and $5.6 million in stroke research from outside sources.

The mission of the VA Medical and Prosthetic Research program is to "discover knowledge and create innovations to advance the health and care of veterans and the nation." While the primary purpose of the VA health care system is the provision of quality health care to eligible veterans, VA-supported research contributes to the quality of care by bringing talented and dedicated physicians into the VA system. Discoveries from VA-supported research benefit veterans, science and the world's health. VA researchers include many nationally recognized, distinguished scientists and several Nobel Laureates. Several VA investigators have been acknowledged for their work in cardiovascular research. In addition, VA-sponsored investigators provide core faculty support at major medical schools affiliated with VA institutions.

The Medical Research component of the VA Medical and Prosthetic Research program supports both basic and clinical research, primarily investigator-initiated peer reviewed studies. This component provides funds for support of VA-based faculty members (M.D.'s or Ph.D.'s) at various stages in their careers, multicenter cooperative studies—a large portion of which are cardiovascular studies—and research equipment. The presence of a VA research program aids the VA. This small, but internationally recognized, highly competitive research program in 1996 directly supported 2,130 investigators with appropriated funds at about 123 VA centers nationwide.

VA cardiovascular research is largely clinical in nature. The VA is a major contributor to this nation's clinical research, playing a unique role in the research community because of its ability to immediately translate research findings into clinical practice.

VA-supported research has produced landmark results and revolutionized treatment in the cardiovascular area in the last decade. Research results from selected studies show that:

—low doses of the blood thinner warfarin can lower the risk of stroke by about 80 percent in patients suffering from an irregular heartbeat;

—carotid endarterectomy, a surgical treatment to remove fat deposits in a major artery in the neck supplying blood to the brain, can prevent stroke in patients with a blocked carotid artery;

—blood pressure lowering medication is beneficial for older patients with high blood pressure, the most prevalent cardiovascular disease and the leading risk factor for heart attack, stroke, congestive heart failure and kidney failure;

—physicians can adapt blood pressure lowering medication to fit individual patient profiles;

—heart medication works just as effectively as coronary artery bypass surgery for most patients with blocked arteries;

—aspirin cuts deaths and heart attacks by 50 percent in patients suffering from unstable angina (chest pain);

—patients, after undergoing angioplasty to widen narrowed arteries to the heart, suffer less pain and can exercise more than those taking only medication;

—heart medication can enhance the heart's pumping ability and keep sufferers of congestive heart failure alive;

—mechanical heart replacement valves bleed more in patients but last longer than those from animals; and

—noninvasive treatment of non-Q-wave heart attack survivors is just as effective or in some cases better than invasive procedures such as bypass surgery and angioplasty. Higher death rates for victims were associated with invasive procedures. Of the estimated 1.5 million Americans suffering from heart attack each year, an estimated 750,000 experience the non-Q-wave—EKG classification—version.

Examples of on-going VA Medical Research-funded cardiovascular studies include:

—determination of whether the addition of beta-blockers to standard treatment reduces deaths and enhances health and quality of life of patients with heart failure. A substudy is creating a large DNA bank of sufferers to examine the genetic basis of heart failure. Still another study, the first big scale, international, randomized clinical trial of digitalis, is evaluating the effects of this 200-year old treatment in preventing deaths from heart failure, the leading cause of hospitalization of Americans age 65 and older. Heart failure represented more than 22,000 VA hospital discharges in 1990 at an estimated cost of $100 million.

—assessment of the most cost-effective way to diagnose and treat suspected heart attack victims without the use of costly invasive procedures.

—research to evaluate the best therapy for patients with low HDL or "good" cholesterol, desirable LDL or "bad" cholesterol and high levels of triglycerides. Individuals with this type of blood lipids profile are more susceptible to heart attack. Incidence of stroke in these patients is also being examined;

—analysis of the effects of warfarin, a blood thinner, plus aspirin versus aspirin alone in reducing death from heart attack;

—evaluation of concept that too much iron in the blood stream causes atherosclerosis; and

—evaluation of efficacy of two promising drugs (amiodarone and sotalol) in maintaining normal heart beat in 2 million sufferers of atrial fibrillation, a totally irregular heart beat, that is a known risk factor for stroke.

The number of VA research applications has grown slightly over the last five years, but funding cuts and/or inflationary increases severely restrict support for approved applications. For the programs which were reviewed for fiscal year 1997 funding, 20 percent of approved applications were funded. Ten years ago, 50 percent of the approved applications were funded.

Total dollars appropriated for the Department of Veterans Affairs Medical and Prosthetic Research program have increased $69.3 million since 1985 at an average annual rate of 2.8 percent; however, there has been a decrease in terms of constant "1985 dollars" of $60 million.

The President's fiscal year 1998 budget of $234.4 million for the VA Medical and Prosthetic Research program is a 10.5 percent or $27 million cut from the fiscal year 1997 appropriation. The President's budget represents a 14 percent cut when adjusted for biomedical research inflation. The VA's ability to fund new initiatives and other important medical research projects would be severely jeopardized by the funding cut proposed by the President.

Enactment of the President's request would require deep modifications and severe cuts in the VA Medical and Prosthetic Research program. Under the President's budget, no new Career Development Awards would be initiated for the third year in a row. The VA would be forced to terminate ongoing programs scheduled for review and renewal and may have to cancel programs approved in fiscal year 1997 to start in fiscal year 1998. The total number of funded programs would fall from an estimated 1,644 in 1997 to 1,469—an 11 percent or 175 program reduction by the end of fiscal year 1998. From 1992 there will be a reduction of more than 930 research programs, an approximate 39 percent cut because budgets have not kept pace with current services. The VA research program would lose 407 FTE.

The Medical Research programs highlighted below would be jeopardized.

—*Investigator-Initiated Studies*.—During fiscal year 1997 this program will constitute 70 percent of the Medical and Prosthetic Research appropriated budget and will support an estimated 1,550 investigators. Under the President's 1998 budget, this program would be cut 16 percent from the fiscal year 1997 appropriated level. This proposed budget will result in a loss of 175 programs. These investigators comprise the core of all VA research and provide the preceptorship for career development awardees.

—*Cooperative Studies*.—In fiscal year 1997 this program supports 37 clinical trials. The VA offers a unique opportunity for cooperative studies due to close linkage among hospitals. These studies provide a mechanism by which research on the effectiveness of diagnostic or therapeutic techniques can achieve statis-

tically significant results by pooling data on patients from a number of VA hospitals. Proposals developed by teams of VA clinicians and biostatisticians are evaluated by the Cooperative Studies Evaluation Committee. Many landmark clinical trials in the cardiovascular field (e.g., studies in high blood pressure treatment and coronary artery bypass surgery) have been supported by the VA under this mechanism. Under the President's fiscal year 1998 budget, this program would receive a $500,000 million decrease from the fiscal year 1997 appropriation. Two planned heart-related cooperative studies—comparison of medical treatment versus surgical methods and evaluation of outpatient surgery as opposed to hospital surgery of victims of heart disease—would not be funded.

—*Career Development Awards.*—Applications for these awards are reviewed both locally and by the VA Central Office. This program has experienced a decrease in the number of awards by 200 percent over the past 5 years. The President's budget recommends a ten percent decrease in this program from the fiscal year 1997 appropriation. For the third year in a row, there will be no new awards. The Research Realignment Advisory Committee-suggested rejuvenation of this program will indefinitely be postponed.

These proposed funding levels are short-sighted because of their negative impact on the entire VA Medical and Prosthetic Research program. Moreover, VA cardiovascular research represents an integral part of the overall scientific effort in this field. The AHA is keenly aware of the need for fiscal restraint, but more importantly, we are concerned about the potential negative long-range effects on this nation's health if biomedical research programs do not receive resources for significant growth.

Today's investment in biomedical research will lead to future returns, including continued decreases in death rates from heart attack, stroke and other cardiovascular diseases, reduced federal outlays for hospital and long-term care expenses, a well-trained cadre of biomedical researchers and a more healthy and productive society.

The American Heart Association recommends a fiscal year 1998 appropriation of $280 million for the VA Medical and Prosthetic Research program. Our recommendation, consistent with that of the Friends of VA Medical Care and Health Research, is based on a current services budget for fiscal year 1998 and a small amount for new initiatives and to recruit new VA physician researchers. A fiscal year 1998 appropriation of $280 million for this program would continue current research momentum in cardiovascular diseases within the VA and help to maintain the VA's vital role in the overall scientific effort in this field.

---

## PREPARED STATEMENT OF JAY LANE, DIRECTOR, PROGRAM PLANNING AND DEVELOPMENT, LACONIA HOUSING AND REDEVELOPMENT AUTHORITY

### THE CONGREGATE HOUSING SERVICES PROGRAM

For the record, my name is Jay Lane. I am Director of Program Planning and Development for the Laconia Housing and Redevelopment Authority, Laconia, New Hampshire. For over 15 years, I have participated in the development and operation of eleven CHSP's in the State of New Hampshire. I also serve as a professional consultant, providing technical assistance to public and private housing agencies that are developing CHSP and other alternative housing programs. I am the publisher of the "Congregate Report," a national newsletter that provides information and advice on funding and other issues related to Congregate Housing and Supportive Services for frail elderly.

In my testimony, I will discuss CHSP's history and the people it serves. I will provide an opinion on the potential problems that may occur in the event that future funding for CHSP is eliminated. I will introduce evidence that CHSP is cost-effective and provides an enhanced quality-of-life by referencing independent evaluations that have been conducted on CHSP programs, and, finally I will share the concerns expressed by housing administrators when discussing the possible elimination of CHSP.

*History*

Congress established the Congregate Housing Services Program [CHSP] in 1978 with the goal of preventing the premature institutionalization of elderly and handicapped residents of federally subsidized housing. Through CHSP, supportive services and non-medical care would be provided to residents of Public Housing that qualified for the Program. Congress was intent on determining if the introduction of supportive services would assist Public Housing Administrators deal with frail elderly residents "aging in place." The goal was to determine if a supportive service

program linked to the public housing subsidy program could delay the premature institutionalization of frail elderly people into nursing homes, and, if this program could have any impact on the amount of money the federal government spends through its Medicaid and Medicare Programs to provide nursing home care to low-income elderly people.

*People Currently being served by CHSP*

Presently, over 3,200 public housing residents (frail elderly and handicapped people) receive both housing assistance and supportive services at 130 CHSP sites across the country. While CHSP may differ from community to community, most programs offer basic services that include meals, housekeeping, personal care, transportation, case management and medical prevention programs. Public housing residents qualify for the Program if they are deficient in at least three activities of daily living [ADL]. Residents also pay for the services they receive based on their income.

*Evaluations Conducted on CHSP Revealed the Following*

Despite efforts by Congress to determine if the original goals of CHSP were being met, very few evaluations on the CHSP have been conducted since its inception. HUD has commissioned two evaluations on CHSP. The first evaluation was conducted on the original program in 1985. It provided the first conclusive evidence that CHSP kept people from entering nursing homes and saved taxpayers thousands of dollars. The second evaluation of CHSP remains on going.

While few evaluations have been conducted on CHSP, those that have been done overwhelmingly agree that CHSP is both cost-effective and provides a higher quality of life for its participants than nursing homes. The following excerpts are from three different evaluations conducted on different CHSP's:

Sylvia Sherwood, Ph.D.—Executive Summary of the Evaluation of CHSP for the Department of HUD, April 1995:

—The CHSP is a cost-effective alternative to institutional care. All research comparing congregate services to nursing home care finds substantial savings for congregate services when comparing costs for a typical person, over a specified period of time. The most careful cost comparison study conservatively estimates these savings to be $4,233–$5,880 per person per year.

—CHSP's in-home services have been effective in preventing unnecessary institutionalization.

—CHSP had substantial positive effects on the life satisfaction and general sense of well being of its participants.

Richard Fortinski, Research Director, University of Southern Maine—Evaluation of the Pariseau CHSP in Manchester, New Hampshire, 1987:

—Based on an analysis of the program's first 40 clients, the researchers estimated that the State of New Hampshire would have spent more than $201,000 on institutional care for the CHSP participants during the first fifteen months of the program. It was estimated that the State would have paid more than twice as much per client month. Monthly costs were $745 per month for CHSP versus $2,097 for nursing home care.

—Our evaluation shows that existing formal services are enhanced by participation in CHSP. CHSP actually provides important support to families to permit them to continue family interaction.

Tamara Martin, Research Assistant, University of New Hampshire, conducting an evaluation on The Tavern Program operated by the Laconia Housing and Redevelopment Authority in 1997:

—Based on an analysis of the program's costs over the first twelve months of operation it was determined that it costs $14,399 to provide housing and supportive services to residents at the Tavern Building versus $32,000 for nursing home placement in one of the state nursing homes.

—The Tavern Program is offering a very high quality of life to a population who would otherwise be in nursing homes.

Despite overwhelming evidence of the Program's success, CHSP is targeted for elimination unless the Congress acts to provide additional funding. The Program, currently funded through the United States Department of Housing and Urban Development, is scheduled to be phased out in 1998. New funding for the program has not been requested for fiscal year 1998. HUD has informed public housing agencies operating CHSP's, that existing five-year commitments will begin expiring in August 1998 and that renewal of the program is not expected.

PUBLIC HOUSING ADMINISTRATORS CONCERNED OVER THE ELIMINATION OF CHSP

Public Housing Administrators who work in agencies that sponsor CHSP are concerned about what will happen to their residents if CHSP is eliminated and support-

ive services end. Most agree that there are two major problems, (1) where will people who participate in the Program go? And, (2) what will happen to them if they stay? When CHSP ends, the vast majority of the estimated 3,200 public housing residents that rely on CHSP services to remain independent, will no longer be eligible to reside in public housing because they cannot care for themselves. They will need to move to nursing homes or other institutional settings. [PHA Administrators wonder]—Suppose beds are not available at local nursing homes, where will my residents go? Will I be forced to evict my residents when they can no longer take care for themselves?

Across the country, thousands and thousand of people are placed in nursing needlessly at great expense to taxpayers because we have not developed Alternative Programs like CHSP. It has been well documented that anywhere from one-third to two-third's of the people currently residing in nursing homes in this country have the functional capability of living in an independent setting if provided with supportive services. In New Hampshire, the State Department of Adult and Elderly Services commissioned a study in 1986 in which it was determined that at a minimum, 10 percent of the people living in the State's nursing homes could live in an alternative setting if provided with necessary supportive services. The report further suggests that through the development of Alternative Housing Programs, like CHSP, thousands of taxpayer dollars could be saved.

As Congress searches for ways to better utilize its scarce Medicaid and Medicare dollars, it makes no sense to eliminate the few alternatives we've developed. Not only should we maintain programs like CHSP, we should seek to expand them. CHSP has proven to be cost-effective, while at the same time allowing people the opportunity to live out their lives in dignity. It makes absolutely no sense to eliminate funding of programs that are cost-effective and provide a higher quality of life for society's most vulnerable citizens.

I cannot stress enough, if Congress does not refund CHSP, many of the 3,200 people currently receiving services will no longer be eligible to reside in public housing, because they cannot care for themselves without the supportive services. Many will be required to move immediately into nursing homes. If nursing home beds are not available, housing administrators may be forced to undertake eviction procedures for residents unable to care for themselves.

In closing, let me again point out that CHSP provides vital supportive services for the most vulnerable people in this country. The vast majority of people receiving services through CHSP would reside in nursing homes if CHSP were not available. The difference in costs between nursing homes and CHSP are two to one. In the State of New Hampshire it costs $32,000 for nursing home care, while CHSP is $14,399. I would suggest the costs are similar across the country. Since every resident participating in CHSP is Medicaid eligible, the longer we can maintain people in CHSP the more precious taxpayer dollars we save.

I would like to thank you for allowing me the opportunity to provide you with this testimony. It has been my pleasure to discuss with you this very important program and I look forward to your continued support. Please feel free to be in touch with me should you require additional information on the Congregate Housing Services Program or other alternative programs.

---

## PREPARED STATEMENT OF SUNIA ZATERMAN, EXECUTIVE DIRECTOR, COUNCIL OF LARGE PUBLIC HOUSING AUTHORITIES (CLPHA), WASHINGTON, DC

The Council of Large Public Housing Authorities (CLPHA) thanks you for inviting it to submit this written testimony. CLPHA represents the 65 large housing authorities shown on this testimony's face sheet. Our members manage over a half million of the country's 1.3 million public housing units, have assets ranging from 1,250 to 160,000 units, and administer a major share of the section 8 tenant-based assistance program.

### THE PUBLIC HOUSING CRISIS

Our gravest crisis is in the public housing program. Starting with the fiscal year 1995 rescissions, public housing has endured cuts among the deepest in federal government. Development funds have been both zeroed out and recaptured; modernization levels have dropped one-third from the original fiscal year 1995 appropriation; operating subsidy shortfalls have been severe—a combined loss of one billion dollars for fiscal year 1997 and fiscal year 1998, should the HUD request be accepted, and a total drop of $5.3 billion from fiscal year 1993 to 2002, assuming a hard freeze from now on. Revenue losses will worsen as the result of welfare and SSI changes. CLPHA estimates a rent loss of $500 million annually from the welfare changes

alone. In Wisconsin, a waiver state, a year into the end of welfare entitlement, the Milwaukee Housing Authority estimates that rent losses will be $100,000 in the year that ends December 31, 1997. Its reduced rents from the impact of SSI changes upon legal immigrants and upon disabled children will be even greater—almost $200,000.

Despite these huge structural deficits, PHA's are still required to run the same program, suffer the same regulations, and serve the same extremely poor households as heretofore. We have become a massive unfunded mandate.

MAJOR CHANGES NEEDED

Mr. Chairman, we greatly appreciate your response to the failure of the authorizing committees to change the rules of the game last year. Your willingness to provide relief has helped, especially in setting ceiling and minimum rents and in removing derelict properties. However, many PHA's have been reluctant to undertake the far-reaching and complex move to local preferences without permanent authorization, which we hope will happen this year.

HUD REQUESTS FOR FISCAL YEAR 1998 ARE WOEFULLY INADEQUATE

HUD's request for operating subsidies is a half-billion dollars under the $3.4 billion required by the Housing Act's Performance Funding System (PFS). For the Committee's convenience, there is attached hereto a comparison and analysis of the HUD request and CLPHA's calculation which points up the discrepancy. The differences lie mainly in HUD's claim of savings from an unimplemented and largely non-existent income matching system, overestimation of savings gained from units to be demolished, underestimation of replacements, and understatement of inflation.

Congress has long dictated that the poorest of the poor should be housed in PHA's. We have done that—our residents' average annual income is a paltry $5,850. The rents they pay—capped at 30 percent of adjusted income—cover only 40 percent of a PHA's operating costs. The federal promise, through the PFS, is to provide an operating subsidy that covers the gap between the low rents and the operating costs of a well-run PHA. HUD's request of $2.9 billion does not come close to keeping that promise. It is short a record $500 million. The impact of that shortfall falls on a PHA's budget for maintaining the properties and the grounds, collecting the rents, providing security, and re-renting vacant units; the utilities must be paid. To accept HUD's figure is to inflict those consequences on the residents.

PHA's are told that it is difficult to meet the PFS funding requirements because operating subsidies are a "high outlayer." This label means little to our members: it is the nature of a rental subsidy program for the money to be spent currently. The statutory income targets and the rent cap are not suspended when being a "high-outlayer" becomes a problem. Operating subsidies do not spend money more quickly, for example, than the subsidies to private owners for existing section 8 units. The notion of "outlay rate" and "budget authority" are not meaningful, we suggest, when applied to contract-type subsidy programs, such as operating subsidies and section 8. (If "outlay rates" are the obstacle, then the Committee might wish to increase our slower-outlay capital funds.) The other inequity in shorting the operating subsidy is that private landlords with section 8 contracts do not suffer subsidy cuts as their tenants' incomes fall; they always get 100 percent of the contract rent.

The Committee should also disregard HUD's proposal to cut section 8 administrative fees further. We have already suffered the two-step cut of a reduced percentage and a reduced base. Many authorities use their administrative fees to help make up for the reduced operating subsidies.

HUD'S REQUEST FOR MODERNIZATION IS A RECORD LOW

Major HUD studies and the National Commission on Severely Distressed Public Housing call for annual funding of $4.5 billion to revitalize and to rehabilitate the public housing stock to current standards, and to cover normal depreciation. Aside from HOPE VI, HUD purports to propose only $2.5 billion for "public housing capital," basically: the modernization program. Its request is misleading because $100 million is set aside for non-capital, non-rehabilitation items: $50 million for "Economic Development & Supportive Services," $45 million for "Technical Assistance," and $5 million for the "Tenant Opportunity Program"—leaving $2.4 billion for building rehabilitation. This is the lowest level since fiscal year 1989, is almost $2 billion below that called for by the National Commission on Severely Distressed Public Housing, and is little more than the $1.7 billion that HUD experts say is needed annually to meet the costs of normal depreciation. Before the fiscal year 1995 rescissions, when formula funding was in full swing, the public housing stock was improv-

ing rapidly. Let that momentum be restored—especially now when we seek to market to families with a broader range of incomes.

The Committee should also seek clear plans on how HUD plans to spend $45 million in technical assistance. We have not seen any sign of strategic use of such monies or measurement of outcomes.

MODERNIZATION FUNDS ARE USED PROMPTLY AND EFFECTIVELY

The General Accounting Office's recent testimony here on "HUD's Fiscal Year 1998 Budget Request: Some Requests for Funding May Be Unnecessary" observed that despite PHA's having reduced uncommitted modernization funds by over 30 percent, approximately $925 million has been in the hands of PHA's for more than two years without being committed to use. Of this amount, one-quarter was with three notoriously troubled PHA's: the District of Columbia, New Orleans, and San Francisco. The DC Housing Authority is now under an able receiver who is spending the backlog apace after years of incompetence; San Francisco and New Orleans are in HUD's hands. HUD under its regulations can recover and redistribute dormant mod funds from any PHA. All mod funds must be obligated by the PHA within two years of HUD's approval of the mod plan and expended within three years of such approval: 24 C.F.R. § 968.125. Mod-troubled PHA's suffer a partial withholding of funds followed by a phaseout: Section 14(k) of the Housing Act of 1937. HUD can always seek the appointment of a receiver to carry out a troubled PHA's mod program. CLPHA has long urged HUD to use these powers but with little success. Effective PHA's and their residents should not be punished by reduced mod funding, because of the failures of the few and of HUD.

SUPPORTIVE SERVICES SHOULD NOT BE FUNDED FROM MODERNIZATION; DEFINITION NEEDED

Supportive services should be funded from the Community Development Block Grant Program as heretofore, and not newly from the underfunded "capital account." See, VA, HUD and Independent Agencies Appropriations Acts, 1996 and 1997. CDBG has not suffered any funding cuts. Moreover, supportive services grants are not confined to PHA's nor to PHA residents, but may be granted to "nonprofit corporations, and other appropriate entities * * *" and may be used for other than residents of public housing. See, for example, Public Law 104–204, 110 Stat. 2887 (1996). CLPHA also urges the Committee to make clear that funding to a non-PHA for work with a PHA's residents should be done in collaboration with the PHA to avoid duplication and misuse of the funds.

Please clarify the purposes for which these funds can be used. The language of the Appropriations Acts, no doubt induced by HUD, allows a hodgepodge that worsens at the Notice of Funding Availability (NOFA) stage. Neither PHA's nor HUD belong in the panoply of social and entrepreneurial activities littered across the Department's fiscal year 1997 NOFA for these funds. See, 61 Federal Register 42356 (Aug. 14, 1996). A portion of the setaside is transformed into the "Economic Development and Supportive Services Program," which HUD's proposed 1997 authorizing bill makes into a new program. Other portions are set aside for "Bridges to Work," "Neighborhood Network," "Resident Initiatives" and "Family Self-Sufficiency," programs of questionable authorization parentage. Finally, partnerships should not be a condition for funding.

CLPHA recommends statutory earmarks of these funds for the elderly and disabled in the form of service coordinators, pursuant to section 507 of the National Affordable Housing Act, Public Law 101–625, and section 673 of the Housing and Community Development Act of 1992, Public Law 102–550, and Congregate Housing Services, and for families in the form of service coordinators, including job training coordinators, and basic education and work readiness training. HUD should be instructed to drop its unauthorized requirement that supportive services can be funded only if "new or significantly expanded." Many are struggling to maintain their successful ongoing programs, rather than invent something for grantsmanship.

Service coordinators for the elderly and disabled can be very helpful at many PHA's with mixed populations. Mixed populations of elderly and non-elderly disabled are sustainable only through the use of service coordinators. Fear and tension between the two groups can be decreased and coexistence made possible. The confidence of the elderly community and its supporters can be regained and the lives of both populations enhanced. We urge that a significant portion of supportive service funds be targeted for such coordinators.

We appreciate the Chairman's constant efforts to get HUD to make the designation of buildings exclusively for senior citizens feasible. We regret that HUD's budget doesn't request section 8 units, as in the past, to enable nonelderly disabled per-

sons to move from elderly buildings or to be able to avoid moving into them in the first place. Certificates/vouchers give the nonelderly disabled an opportunity to live in the broader community; please continue this setaside.

PHDEP AND SUPPORTIVE SERVICES FUNDING SHOULD BE INCREASED

The Public Housing Drug Elimination Program (PHDEP) has enabled PHA's to leverage helpful services for their residents ranging from more security to networks of crime preventing Boys and Girls Clubs.

Please increase funding for these worthy programs to $350 million for PHDEP and to $75 million for Supportive Services. We ask that an allocation of 85 percent of the PHDEP funds go to PHA's with 500 or more units on a per unit basis. The first nationwide survey of tenants in public housing, by the Research Triangle Initiative in 1995, found that residents in the large authorities—1,250+ units—suffered at that or a greater percentage of the study's crime indicia when measured against the residents of the four smaller classes of PHA's, each of which was dramatically less. Although this share would reduce the current per unit funding of many large PHA's—to the benefit of smaller, less crime-beset agencies—large PHA's are willing to accept this "discount" to gain: predictability, opportunity to plan, continuity for the residents, and enhanced recruitment of capable staff. The present system of annual grantsmanship undercuts good program performance.

Please head off HUD's reported intent to limit the percentage of a PHDEP grant that can be used for law enforcement and to prescribe a percentage that must be used for work-related efforts. PHDEP funds are effectively used now for the purposes Congress intended—to defeat drug and alcohol abuse. Sometimes HUD should learn to leave well enough alone. We request Report language on this point.

HOPE VI FUNDS SHOULD BE LIMITED TO ORIGINAL REVITALIZATION GOAL

The promise of HOPE VI—of social and physical revitalization—is being fulfilled. Milwaukee's Hillside development (one of the first HOPE VI sites to be reoccupied) is a wonderful example: a pariah project is now eagerly applied for; the neighborhood has been rejuvenated; now one-third reoccupied, residents reporting wages as their principal source of income have increased 34 percent. The combination of capital for reconstruction and funds for support services to residents has been the secret of this success. Now, HUD seeks in its fiscal year 1998 request, and in its proposed authorization bill, to use HOPE VI (a) to fund applications for demolition only, unconnected to revitalization—an activity which should be carried out under the modernization (now "capital") account; and (b) to use HOPE VI capital for section 8 tenant-based assistance for relocation—an activity traditionally carried out under the section 8 account. There is a "bait and switch" aspect to this: Congress appropriates funds narrowly focused on the capital needs for major reconstruction of the most distressed projects and HUD then bootlegs other activities under the popular HOPE VI account. CLPHA requests $500 million for HOPE VI—for revitalization capital and supportive services only.

CONCLUSION

Please recognize that no system serving 3.4 million persons—all poor, many frail elderly, many mentally and physically disabled, many children—housed in over 13,000 individual developments with 1.4 million apartments, often in difficult locations, can survive the cuts imposed on public housing. CLPHA members seek only to fulfill the responsibility that we share with the federal government to shelter decently the country's most vulnerable people—not to launch new activities with future funding obligations. We want to prevent a $90 billion public asset from wasting. Thank you for whatever help you can give us; please consider our predicament and that of those whom we serve.

---

THE PERFORMANCE FUNDING SYSTEM: CLPHA'S OPERATING SUBSIDIES PROJECTIONS FOR FISCAL YEAR 1998

In early February, HUD announced its budget request for fiscal year 1998. The budget calls for $2.9 billion for public housing operating subsidies for non-Indian housing authorities. This request corresponds to 93 percent of HUD's own estimates of operating subsidies needs for fiscal year 1998. CLPHA estimates that these HUD projections are significantly below the basic needs of public housing. According to CLPHA's calculations, the PFS calls for $3.4 billion in operating subsidies, making the HUD request only 85 percent of PFS. A worksheet summarizing the estimates is attached.

The major differences between HUD's and CLPHA's estimates are in two areas: the projection of tenant income and the number of units. Other differences are influenced by these two estimates. Also, HUD is expecting the inflation factor to be 3.4 percent in 1998, while CLPHA projects slightly over 4 percent.

TENANT INCOME

HUD expects tenant income to increase by $88 million and income matching to generate an additional $49 million in 1998. We believe that these assumptions are not realistic and may not materialize. HUD may be trying to correct a deficiency on one hand while adding another deficiency of the same nature on the other hand. In the past, HUD used to require housing authorities to automatically budget for a 3 percent increase in rental income. However, these increases never materialized and HUD was forced each year to budget for an adjustment. Last year this requirement was suspended. HUD may be banking too early on the potential positive effect of welfare and housing reforms.

NUMBER OF UNITS

HUD in its budget estimates is accounting for units demolished in fiscal year 1996 and to be demolished in fiscal year 1997. Although HUD is correctly accounting for the phasing out of these units, we do not believe that the pace or the magnitude will be as projected by HUD. Also, CLPHA does not believe that the demolition of units will or should automatically translate into reduction in operating subsidies. The correct accounting for the number of units is crucial in the determination of operating subsidies for it affects the budgeting for costs and revenues.

THE PERFORMANCE FUNDING SYSTEM: OPERATING SUBSIDIES NEEDS PROJECTIONS FOR FEDERAL FISCAL YEAR 1998

[Dollars in millions]

| No IHAS in 1998 | HUD | CLPHA |
|---|---|---|
| Components of PFS base: | | |
| Allowable expense level (AEL) | $3,865.273 | $4,014.333 |
| IPA audits and other expenses | 8.583 | 8.913 |
| Add-ons for FICA/UNEC | 18.980 | 19.712 |
| Utilities | 1,179.662 | 1,216.682 |
| Utility adjustments—rate | 17.422 | 17.422 |
| Less: income | (1,970.998) | (2,032.852) |
| Subtotal PFS base | 3,118.922 | 3,244.210 |
| Add: | | |
| Non-PFS projects | 114.955 | 120.124 |
| Energy incentives per 1987 HCD Act | 3.000 | 3.000 |
| Miscellaneous adjustments | ..... | ..... |
| Non-dwelling units | 1.796 | 1.809 |
| Family self-sufficiency program | 3.908 | 3.935 |
| Unit configurations | 5.965 | 6.195 |
| Transition funding for demolitions | 19.038 | 19.171 |
| Earned income exclusion | 40.000 | 40.000 |
| Less: | | |
| Utilities rolling base | (43.700) | (30.700) |
| Change tenant income | (88.000) | ..... |
| Tenant income matching | (49.000) | ..... |
| Subtotal requirements | 3,126.884 | 3,407.744 |
| Cumulative demolition savings in requirements | (88.193) | ..... |
| Amount available/request | 2,900.000 | 2,900.000 |
| Shortfall | (226.884) | (507.744) |
| Proration (percent) | 93 | 85 |

BACKGROUND AND ASSUMPTIONS

In 1975 pursuant to Section 9(a) of the 1937 Housing Act, HUD implemented the Performance Funding System (PFS) to determine the amount of operating subsidy to be paid to most housing authorities. The PFS serves two purposes: it is used to determine each PHA's share of the total operating subsidy funds appropriated by Congress each year; and provides a reliable means of estimating the annual aggregate operating subsidy of PHA's which serves as the basis for requesting annual appropriations from Congress.

Under the PFS, subsidy levels are tied to the cost of operating a prototype well managed project, taking into account the characteristics and location of the project and the characteristics of the tenants. The subsidy amount is computed as the difference between the PHA's projected expenses and its projected operating income. The operating subsidy is generally approved prior to the beginning of a PHA fiscal year. After the end of each fiscal year, certain adjustments of operating subsidy eligibility are required based on actual experience during the year.

The total allowable expenses under PFS are comprised of an Allowable Expense Level (AEL) for non-utility costs, a separate Allowable Utilities Expense Level (AUEL), and several other costs.

*The AEL inflation*.—The AEL inflation factor will be equal about 4.12 percent. In recent years, HUD has used a rate between 2.7 percent and 3.6 percent.

The first step in determining a PHA's operating subsidy allocation is to compute the base year expense level. In subsequent years, the AEL is increased by 0.5 percent (the delta which represents regional cost variations), adjusted for changes in the number of units in excess of 5 percent or 1,000, whichever is less, and adjusted for the local inflation factor.

(a) *The Delta*.—A Delta of 0.5 percent was used in this projection. Normally, The delta varies from region to region and is reflected in each housing authority's budget submission. However, at the national level, a single delta is used. In recent years the value of the delta has been consistently set at 0.5 percent.

(b) *The Inflation factor*.—The inflation factor used to annually adjust the AEL for anticipated increases in non-utility expenses is a composite of two separate indices. The first which has a weight of 60 percent is in the composite index is derived annually from data collected in a survey of state and local government wage and rates conducted each fall by the bureau of census. The basic rational behind the use of this measure is that PHA's as public agencies should be given adequate funds to provide wage increases to their employees, which keep pace with those of other public employees in their communities. In this projection, this value is taken to be equal to the projected growth from 1987 to 1988 in wages and salaries as predicted by the Office of Management and Budget (OMB).[1] This value is equal to 5.4 percent.

The second index, which has a weight of 40 percent in the composite index, is also derived annually from survey data The Bureau of Economic Analysis samples the costs of goods and services purchased by state and local governments and determines how much the costs have to be deflated to be valued in constant dollars. The implicit price deflator is then further modified for HUD in order to strip out the labor component of the index and to estimate, what the index will be in the upcoming PFS forward coming year. Unlike the index used for local government wage rates, which varies from community to community, the implicit price deflator is a single value which is used for all PHA's nationally. The basic rationale for using the implicit price deflator is that it allows compensation for increases in PHA non-labor expenses, which could be rising at a higher or lower rate than local government wages.

OMB reports a prediction of 2.2 percent for the IPD for 1998.

The rationale behind the 60/40 weights in forming the composite index is that approximately 60 percent of PHA non-utility costs are, on the average, labor costs and 40 percent are goods and services.

AEL Inflation Factor (0.6*5.4+0.4*2.2)=4.12 percent

*IPA Audits and Other Expenses*.—Independent audits are intended to determine whether a PHA's financial statements fairly present its financial position and the effectiveness of its financial operations. Additionally, an audit ensures that internal accounting and other control systems exist to provide reasonable assurance that programs are in compliance with applicable laws and regulations which may have a material effect on its financial statements. PHA's receiving $25,000 or more in operating subsidy are subject to an annual audit.

The estimate for the IPA audits is done by adjusting the previous year's audit cost for inflation.

---

[1] See attached.

*Add-Ons for FICA/UNEC.*—In 1977 change in Social Security laws in 1977 periodically increases the amount of Social Security deductions and, therefore, increases the employee benefit contributions expense for PHA's whose employee are covered by Social Security (FICA). Increases may be a result of changes in the contribution rate and/or benefit base.

The estimate for the FICA audits is done by adjusting the previous year's audit cost for inflation

*The AUEL inflation factor used is 3.0 percent.*—Utility expenses are estimated at the beginning of a PHA fiscal year based on a 3 year average consumption level and the use of current rates. After the end of the PHA's fiscal year, an adjustment is made in order to: reflect actual utility rates during the year; adjust estimated consumption to resect the impact of weather on heating costs; and provide for a PHA and HUD 50–50 sharing, of additional costs or savings resulting from changes in consumption level.

PUBLIC HOUSING OPERATING SUBSIDY FUNDING SHORTFALLS (1993–2002)

| | Fiscal year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
| Operating subsidy need [1] | $2,576,000,000 | 2,817,579,000 | $2,933,867,000 | $3,146,910,000 | $3,347,291,000 | $3,407,744,000 | $3,548,143,053 | 3,694,326,547 | $3,846,532,800 | $4,005,009,952 |
| Appropriation for operating subsidies | 2,282,000,000 | 2,620,000,000 | 2,900,000,000 | 2,800,000,000 | 2,900,000,000 | 2,900,000,000 | 2,900,000,000 | 2,900,000,000 | 2,900,000,000 | 2,900,000,000 |
| Annual funding gap | 294,000,000 | 197,579,000 | 53,867,000 | 346,910,000 | 447,291,000 | 507,744,000 | 648,143,053 | 794,326,547 | 946,532,800 | 1,105,009,952 |
| Cumulative funding gap | 294,000,000 | 491,579,000 | 545,446,000 | 892,356,000 | 1,339,647,000 | 1,847,391,000 | 2,495,534,053 | 3,289,860,599 | 4,236,393,400 | 5,341,403,351 |

[1]Operating subsidy needs do not include funding for employee benefits and funding for deductions in the 1990 NAHA. Projections for fiscal years 1998 to 2002 include a 4.2 percent inflation adjustment.

TABLE 2.—ECONOMIC ASSUMPTIONS [1]

[Calendar years; dollar amounts in billions]

| | Actual 1995 | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
| Gross Domestic Product (GDP): | | | | | | | | |
| Levels, dollar amounts in billions: | | | | | | | | |
| Current dollars | 7,246 | 7,569 | 7,952 | 8,360 | 8,783 | 9,233 | 9,701 | 10,196 |
| Real, chained (1992) dollars | 6,739 | 6,888 | 7,050 | 7,214 | 7,381 | 7,552 | 7,725 | 7,905 |
| Chained price index (1992=100), annual average | 107.6 | 110.2 | 113.0 | 116.2 | 119.3 | 122.5 | 125.8 | 129.3 |
| Percent change, fourth quarter over fourth quarter: | | | | | | | | |
| Current dollar | 3.7 | 5.0 | 5.1 | 5.1 | 5.1 | 5.1 | 5.1 | 5.1 |
| Real, chained (1992) dollars | 1.3 | 2.6 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 |
| Chained price index (1992=100) | 2.6 | 2.5 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 |
| Percent change year over year: | | | | | | | | |
| Current dollars | 4.5 | 4.5 | 5.1 | 5.1 | 5.1 | 5.1 | 5.1 | 5.1 |
| Real, chained (1992) dollars | 2.0 | 2.2 | 2.4 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 |
| Chained price index (1992=100) | 2.5 | 2.4 | 2.6 | 2.8 | 2.7 | 2.7 | 2.7 | 2.7 |
| Incomes, billions of current dollars: | | | | | | | | |
| Personal income | 6,102 | 6,403 | 6,722 | 7,040 | 7,368 | 7,708 | 8,068 | 8,467 |
| Wages and salaries | 3,424 | 3,588 | 3,797 | 4,003 | 4,214 | 4,429 | 4,653 | 4,894 |
| Corporate profits before tax | 601 | 652 | 697 | 724 | 764 | 815 | 848 | 880 |
| Consumer Price Index (all urban): [2] | | | | | | | | |
| Level (1982–84=100), annual average | 152.4 | 156.9 | 161.3 | 165.8 | 170.5 | 175.3 | 180.2 | 185.2 |
| Percent change, fourth quarter over fourth quarter | 2.7 | 3.2 | 2.8 | 2 8 | 2.8 | 2.8 | 2.8 | 2.8 |
| Percent change year over year | 2.8 | 3.0 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 |
| Unemployment rate, civilian, percent: | | | | | | | | |
| Fourth quarter level | 5.6 | 5.6 | 5.7 | 5.7 | 5.7 | 5.7 | 5.7 | 5.7 |
| Annual average | 5.6 | 5.6 | 5.7 | 5.7 | 5.7 | 5.7 | 5.7 | 5.7 |
| Federal pay raises, January, percent: | | | | | | | | |
| Military | 2.6 | 2.9 | 3.0 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 |
| Civilian [3] | 2.0 | 2.0 | 3.0 | ..... | ..... | ..... | ..... | ..... |
| Interest rates, percent: | | | | | | | | |
| 91-day Treasury bills [4] | 5.5 | 4.9 | 4.5 | 4.3 | 4.2 | 4.0 | 4.0 | 4.0 |
| 10-year Treasury notes | 6.6 | 6.2 | 5.6 | 5.2 | 5.0 | 5.0 | 5.0 | 5.0 |
| Addendum: March Budget assumption for GDP implicit price deflator, pre-revision basis (1987 dollars): [5] Percent change, year over year | 1.7 | 2.2 | 2.2 | 2.2 | 2.3 | 2.2 | 2.2 | 2.2 |

[1] Based on information available as of June 1996.

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

[3] Percentages for 1995 and 1996 exclude locality pay adjustments. Percentages to be proposed for years after 1997 have not yet been determined.

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

[5] Because the comprehensive revision to the National Income and Product Accounts (which include GDP price measures) was delayed due to furloughs of Government employees, some budget estimates and their Mid-Session Review updates were based, at least in part, on GDP measures on the pre-revision basis.

---

## PREPARED STATEMENT OF JOHN KOELEMIJ, PAST PRESIDENT, NATIONAL ASSOCIATION OF HOME BUILDERS

Mr. Chairman, Senator Kerry and Members of the Subcommittee: My name is John Koelemij and I am a home builder from Tallahassee, Florida and past President of the 190,000 member firms of the National Association of Home Builders (NAHB). On behalf of NAHB, I thank you Mr. Chairman, as well as other key members of the Subcommittee and of the full Banking Committee, for your leadership and perseverance in continuing to strive in order to achieve both a responsible as well as equitable solution to the task before you with respect to the expiring project-based Section 8 rental assistance contracts. I also want to publicly thank and acknowledge our appreciation for the Subcommittee's professional staff, both Republican and Democratic, for their dedication, accessibility and their in depth knowledge of housing programs. They serve you well.

Further, I thank you for the opportunity to appear here today to comment on the "Multifamily Assisted Housing Reform and Affordability Act of 1997," S. 513. As the

Chairman and Members of this Subcommittee know all too well, project-based section 8 rental assistance contracts, have begun to expire. Their numbers are estimated to be 1.3 million units. Of this universe, approximately 900,000 are in structures with mortgages insured by the Federal Housing Administration (FHA). An additional 50,000 units, in about 1,700 projects, are financed by a direct loan from the Rural Housing Service at the Department of Agriculture. Other units are in projects financed by bonds through various state housing finance agencies.

While some of these rental assistance contracts are co-terminus with the terms of the mortgage, most are not. Consequently, if the Section 8 rental assistance contracts are not renewed, these projects are at serious risk of default and foreclosure. The practical effect of Congress taking no action exposes a wide variety of stakeholders to very serious consequences. These stakeholders include: the FHA insurance fund, the Departments of Agriculture, HUD, and Treasury; state bonding agencies; private lenders; a vast number of communities and neighborhoods; owners and most importantly, the residents the program is intended to serve.

Most owners of this valuable housing stock are dedicated to providing good housing that is decent, safe, sanitary and affordable. Residents depend on this rental housing for shelter and security. In many neighborhoods, this housing serves as an anchor for the community. These are very sound reasons, indeed, Mr. Chairman for taking actions that will preserve this housing in the affordable housing stock, minimize the risk of loss and likelihood of increased liabilities for responsible owners, minimize the displacement and uncertainty for current residents, and protect the physical asset that this housing provides.

NAHB believes that Section 8 portfolio re-engineering should contain certain elements essential to providing a responsible and equitable solution. First, the formula should be clear, workable and flexible, as a "on one size fits all" system simply will not work. S. 513 contains this essential element. The bill provides for new, lower rents for projects based on rents for comparable unassisted properties in the area, or, if no such measure is available, 90 percent of the HUD fair market rent (FMR). Existing mortgages would be restructured to provide a reduced new, or modified, first mortgage with lower debt service, which along with operating costs, can be covered by the lower rents. Funds to pay the difference between the old mortgage and the new mortgage would come from the FHA insurance fund. In order to avoid certain adverse tax consequences arising from the reduction of the first mortgage, funds provided by FHA to reduce the first mortgage would be repaid by the owner through a second mortgage. The lower rents would result in lower rental subsidies from HUD.

Second, if the debt is to be restructured, the restructuring entity should be a public body. Section 8 project-based rental assistance involves the use of public funds. Only public bodies have the accountability necessary for balancing social policy with the fiscal policy in a responsible manner, while being accountable to taxpayers. S. 513 embraces this element by maintaining an active role by public entities for any reform of the Section 8 portfolio; namely the state and local housing finance agencies (HFA's). NAHB strongly supports this approach.

We recognize that not all public housing finance agencies possess the ability to restructure the debt on properties that exceed market value, nor to determine the actual market value. HFA's should, nonetheless, remain in control of the process, while contracting out certain functions to FHA approved mortgage lenders and other entities that are qualified to deliver a responsible and workable approach. Re-engineering, or financial restructuring, on over-market properties should focus not only on reducing the cost to the government, but it should also focus on protecting the physical asset along with responsible owners and managers and the hundreds of thousands of elderly, disabled, and other low-income families. S. 513 achieves this goal.

Third, the rental assistance should remain as project-based. Empowering residents by providing alternative housing choices is a commendable concept and can be a useful tool. However, in this instance, we are in most cases misleading the public, if not ourselves, for there often exists no alternative housing. Instead, the goal should be one of adequate protection for the joint needs of current residents, the fiscal viability of responsibly owned and well-managed housing projects, the overall cost to taxpayers, and the continuation of needed affordable housing that serves as an important resource for the community. S. 513 embraces this element.

Continuation of project-based assistance provides the highest level of protection for current residents. For the elderly and the disabled, tenant-based assistance does not offer choice, but rather uncertainty. This is particularly true in tight housing markets in major urban areas as well as in rural areas. "Vouchering out" project-based rental assistance does, however, pose an increased risk to the continued financial viability of an affordable housing resource. "Vouchering-out" also places resi-

dents at greater risk that the government's commitment to providing rental assistance can be reduced in overall numbers with greater ease.

Further, NAHB is deeply concerned with the Administration's proposal, which provides project-based assistance for the elderly and the disabled, but not for housing occupied by families with children. NAHB believes that it is important to preserve affordable housing for the elderly and the disabled, as well as housing occupied by low- and moderate-income families.

The fourth element is maintenance of FHA insurance. NAHB believes FHA insurance should remain in place on those projects that have their mortgage debt restructured. Without FHA insurance, many otherwise good and fiscally sound housing projects will be unable to obtain long-term financing at reasonable interest rates. S. 513 embraces this element. The combination of project-based assistance, which is mandatory, combined with the presence of FHA multifamily mortgage insurance on one-year renewals of the rental assistance, increases the likelihood that future renewals will be forthcoming.

The Administration's proposal potentially would subject literally hundreds of thousands of residents to displacement as long-term pressures on balancing the budget prevail over the more limited resistance to renewing tenant-based assistance contracts. As existing residents either move or cease to need assistance, the overall supply can be more easily reduced by failure to re-issue the certificates or vouchers. Further, in certain markets, projects will quickly become destabilized as low-income residents receiving rental assistance move, or exit the program, and no new assistance is provided for additional families. If market rate renters can not be located or attracted to the project, then they will go into default and foreclosure.

Fifth, responsible owners of this housing should be provided adequate protection from the likelihood of unnecessary tax consequences as a result of debt restructuring. If the federal government takes actions to restructure the debt, it has the responsibility to protect those stakeholders who would otherwise be penalized, albeit unintentionally, as the result of these actions. While not containing a tax solution through the Internal Revenue Code, S. 513 turns that portion of the original debt that is above the market value into a second mortgage. While this approach is far from perfect, it is preferable to the tax consequences that would occur for many owners without it. The Administration's proposal would increase an owners tax liability beyond that which currently exists without debt restructuring or sale of the property. It creates a preference for sale to certain purchasers, by providing favorable tax treatment to sales to non-profits, but no tax relief for sales to for profits, thereby reducing the overall value of the properties. Also, the provision calls for owners to relinquish the step up in basis at death. This would result in a major change in what has been an integral part of tax law for decades.

Sixth, restructured rents should be based on market comparables, not HUD's fair market rents (FMR's), which often do no reflect the current market. Further, rents can, and often do, vary widely throughout a metropolitan area leaving the FMR far too low in more costly sections of an area, while excessively high in other neighborhoods.

Seventh, restructuring should not abrogate an owner's right to prepay the existing mortgage. S. 513 embraces this element. Owners have the option simply to prepay the current mortgage without participating in the program. The Administration's proposal, on the other hand, does not allow property owners a clean right to prepay their mortgage obligation and seek other uses for their properties. It also would require owners receiving many types of housing assistance to lease a set amount of units to holders of tenant-based assistance, abrogating contract rights of the owners.

With respect to the Section 515 rural direct loan program administered by the Rural Housing Service (RHS) at the Department of Agriculture, NAHB supports the Chairman's decision to renew these Section 8 assistance contracts at current rents. Additionally, we would support any efforts by this Subcommittee to ensure that when these Section 8 contracts do expire, that they are renewed as Section 8 contracts, as opposed to transferring them to the RHS Section 521 rental assistance program until any rural restructuring proposals are fully developed.

When I appeared before this Subcommittee a year ago, I offered our support for last year's version of S. 513. This year, I again offer our support for S. 513. It embraces not only the basic principles for responsible housing policy, but also a clear, concise, and workable formula that protects all stakeholders in the program.

We remain concerned, however, over the following three issues:

First, we strongly agree with the authors of S. 513 that the restructuring entities must be public organizations. And, most of the provisions in this legislation direct the restructuring to public entities. Section 103(b)(3)(B), however, provides HUD with a "back door" to contract with non-public entities, including Wall Street investment bankers to conduct the restructuring. NAHB believes that this back door ap-

proach, while admittedly a narrow opening, will, nonetheless, allow HUD to involve firms with motivations to take these properties from their current owners and displace their low- and moderate-income residents. NAHB urges that this provision be stricken.

Second, NAHB believes that the bill should contain workable "exception rent" provisions. NAHB is aware of many projects, particular in New York City, as well as many rural areas, where comparable properties do not exist, and where operating costs are high in comparison to HUD's FMR's. A substantial portion of these properties serve seniors who need special services and facilities. It is appropriate to shift to budget-based rents as "exception rents" when the formula cap will not support operating costs without debt service for these properties. However, the technique for establishing a higher exception rent cap (120 percent of the FMR in S. 513) and annual limits for use of exception rents (20 percent of expiring units) is not a proper approach for controlling operating costs and simply will result in the removal of hundreds of good projects from the affordable housing stock. A HUD commissioned study by Earnst & Young indicates that market rents would not cover operating expenses in 1,100 of the 8,400 projects in the privately owned FHA-insured HUD-assisted portfolio. Many of these worthwhile projects, particularly elevator structures for seniors in rural areas, would have to be demolished because existing residential market rents will not support operating costs and these buildings cannot be converted to other uses.

NAHB urges that these limitations be removed from S. 513. In their place, NAHB supports language to be added to Section 104(g)(2), allowing Participating Administrative Entities (PAE's) to exceed restructuring rent limits and utilize budget-based rent levels for "exception projects" where the PAE determines that the housing needs of the tenants and the community cannot be addressed adequately through restructuring.

Third, as discussed above, many projects are located in communities where comparable properties do not exist, particularly in rural areas. Comparable properties do exist, however in other communities of similar size and characteristics and can be utilized by expanding the definition of "comparable properties" to allow state certified appraisers, pursuant to the standards of the Uniform Standards of Professional Appraisal Practice, to locate and use actual comparables.

Thank you for considering our comments on this legislation of vital importance to the industry.

I would be happy to respond to any question that Members may have.

---

## PREPARED STATEMENT OF THE NATIONAL COUNCIL OF STATE HOUSING AGENCIES ON BEHALF OF THE NATION'S STATE HOUSING FINANCE AGENCIES

Chairman Bond, Senator Mikulski, and members of the Subcommittee, thank you for this opportunity to submit testimony.

The National Council of State Housing Agencies (NCSHA) is a national, nonprofit organization created in 1970 to assist its members in advancing the interests of lower income and underserved people through the financing, development, and preservation of affordable housing. NCSHA's members are Housing Finance Agencies (HFA's) with statewide authority. NCSHA's member agencies operate in every state and the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

Mr. Chairman, the state HFA's are very grateful for your extraordinary support of affordable housing in this time of severe budget austerity. You have consistently supported HFA's and worked to enact sensible housing finance policy. The HFA's will continue to do their very best to use these hard-won resources as efficiently, effectively, and creatively as possible.

Though the HFA's administer the full range of affordable housing programs—from homeownership to rental to all types of special needs housing—our statement focuses on three HFA priority federal spending programs: the HOME Investment Partnerships Program, Section 8, and the Federal Housing Administration's (FHA) multifamily insurance programs, particularly the HFA Risk-Sharing program.

### REJECT THE ADMINISTRATION'S HOME FUNDING CUT

The HFA's vigorously oppose and urge you to reject the Clinton Administration's proposal to cut the HOME program by five percent to $1.309 billion in fiscal year 1998. As you know, HOME has produced dramatic results over the years, giving many low income, working American families a chance they otherwise would not have to live in decent, affordable housing, to move toward self-sufficiency, and to establish a stake in their communities. Since the program's inception, the need for

HOME funding has exceeded its supply, and states and localities have been unable to meet the steadily increasing demand for HOME funds.

The Administration claims that despite its success, HOME too must contribute to deficit reduction. We assert that like affordable housing programs generally, HOME has already contributed more than its fair share. Congress cut HOME to $1.4 billion in 1994, and has not increased it since, while inflation has cut its purchasing power 15 percent. After correcting for contract renewal costs, the Administration proposes to cut affordable housing programs by one percent between fiscal year 1997 and fiscal year 1998, as compared with its proposed increase of four percent in discretionary programs overall. Between fiscal year 1997 and fiscal year 2002, the Administration proposes to cut HUD's budget by five percent, while increasing the discretionary budget by eight percent.

We hope you will find a way to increase HOME funding to meet its growing demand, or at the very least to maintain HOME funding at its current level of $1.4 billion.

NCSHA's member agencies administer the HOME program in 39 states and territories and are responsible for over 70 percent of all state HOME funds. That is nearly' $2.4 billion to date.

HOME works because Congress designed the program to allow states and localities, not the federal government, to decide how best to respond to their unique housing needs. HOME marks a bold step toward decentralizing decisions about affordable housing help to the states and localities. We must not reverse this progress by cutting its funding.

Unlike bureaucratic, categorical programs, HOME can be used, and is being used, at the option of states and localities, for a wide range of activities to produce housing for every conceivable low income population. HOME is funding housing for the elderly, the homeless, people with disabilities, battered women with children, and families with extremely low incomes. HOME is making homeowners out of public housing residents and creating independent living opportunities for people across the spectrum of special needs.

HOME funds have financed construction and rehabilitation of more than 95,000 affordable apartments, helped over 55,000 families buy their first home, assisted more than 46,000 to make needed home repairs, and provided rental assistance to nearly 26,000 families.

The vast majority of HOME funds assist extremely low and very low income families, whose incomes are well below the income limits Congress has imposed on the program. For example, over 70 percent of families who have received HOME funds to repair their homes have incomes below 50 percent of their area's median. The same is true for nearly one-third of those families who have purchased a home with the help of HOME down payment, closing cost, or interest rate assistance. Over 70 percent of families who have received HOME rental assistance have incomes below 30 percent their area's median income, and more than 90 percent of HOME-financed apartments are rented by families with incomes below 50 percent of the area's median income.

HOME also creates jobs, expands local tax bases, and stabilizes communities. One dollar in HOME funds leverages nearly two more dollars of investment in affordable housing.

Here are just a few of the success stories HOME has written in your state and some of your Subcommittee members' states:

—In Missouri, for the first time, the Department of Mental Health is working in cooperation with a community housing development organization (CHDO) to use HOME funds to create a twelve unit apartment complex for people with serious mental illness. One hundred percent of the units will be rented to residents with 25 percent or less of median income.

—In Montana, a CHDO is using HOME funds to support infrastructure costs involved in developing 22 units of single family housing on land donated to a permanent land trust by the City of Livingston. All homebuyers will have incomes ranging from 66 to 80 percent of median income.

—The Alaska Housing Finance Corporation (AHFC) used HOME funding to develop a 15 unit disabled-accessible, affordable community in Juneau, historically one the state's most difficult housing markets. This region's limited utilities, expensive land costs, and rugged terrain generate unusually high development costs. The sponsor combined the HOME funds with a capital grant from the City and Borough of Juneau and Low Income Housing Tax Credits.

HFA'S PRIORITY ROLE IN PORTFOLIO REENGINEERING

Mr. Chairman, NCSHA commends you for co-sponsoring Senator Mack's legislation (S. 513) which would address permanently the need for restructuring FHA insured mortgages and renewing the thousands of expiring Section 8 project-based contracts which support them. NCSHA is committed to working closely with you, your staff, and the authorizing committee to develop the best legislation possible to preserve the federal government's multimillion dollar investment in this quality affordable housing, protect the properties, their residents, and communities, and respect the rights of states, owners, and investors, without breaking the federal budget.

We also appreciate greatly your efforts to create the fiscal year 1997 Section 8 portfolio reengineering demonstration program, enacted last September in last year's VA-HUD appropriations bill. We are especially grateful for the priority role you gave to HFA's to serve as designees for HUD in the demonstration. Thirty state HFA's, with three-quarters of the eligible properties, have been approved by HUD to serve as designees. Unfortunately, despite NCSHA's efforts to help HUD prepare its program guidelines and specific instructions for designees, HUD only issued the guidelines in late January and the designee instructions in mid-April. Regrettably, HUD has focused much of its time and attention on readying its own field staff to carry out the restructurings Congress intended for public agencies and nonprofits.

The sluggish pace of the demonstration should not be misinterpreted as a lack of enthusiasm or interest on the part of the HFA's, however. Despite their disappointment with HUD's repeated delays, HFA's are eager to participate in the demonstration and begin the restructuring process. Two states already have submitted management plans to HUD. This week, HUD approved the plan presented by Ohio, which has the largest portfolio of eligible properties in the nation.

In its fiscal year 1998 budget, HUD again proposed a multifamily portfolio reengineering plan to renew expiring Section 8 contracts at market rents and restructure the properties' FHA-insured mortgages so they can be serviced at the reduced rents. In addition, HUD recently submitted its legislative proposal for portfolio reengineering to Congress. This proposal is an improvement on previous HUD approaches, but continues to have serious flaws. Our greatest concerns are that HUD's legislation would continue project-based assistance for only 50 percent of the current portfolio and fails to give HFA's and other public agencies the right of first refusal to carry out the restructuring, which both the demonstration and the Mack legislation provide.

Consensus exists among Section 8 residents, owners, managers, and lenders that portfolio reengineering of some kind is necessary to reduce the cost of renewing expiring Section 8 contracts while preserving the housing stock as affordable. We favor the approach taken in the fiscal year 1997 demonstration and Senator Mack's bill which renews all expiring project-based contracts and utilizes qualified designees to handle restructuring when possible. If Congress is unable to enact permanent authorizing legislation in the time remaining this year to address the Section 8 contract renewal crisis, we urge you to extend for another year the current demonstration program, which embodies so many principles we support, especially the priority role for HFA's as designees and the preservation of project-based assistance. In the absence of permanent legislation, an extended demonstration presents the best opportunity for illustrating the benefits of portfolio reengineering.

As the discussion about permanent portfolio reengineering legislation continues, we propose several measures to ensure the best possible outcome for all properties. We support the use of the FHA insurance fund to write down the insured mortgages to levels sustainable at new, reduced rents, and the use of budget-based rents for distressed properties which could not operate successfully at market rents even if the FHA insured debt was written down to zero. Some of the Section 8 contracts expiring in fiscal year 1998 and beyond support uninsured properties and properties developed under the Section 8 Moderate Rehabilitation program. The HFA's are confident, given the provision Congress made for these properties in fiscal year 1996 and 1997, that you intend to renew these contracts going forward. We urge you to renew these contracts at rents adequate to support their operating budgets, so these properties, like the FHA insured inventory, can continue to provide viable, affordable housing for the long term future.

Budget-based rents are particularly important for uninsured properties with bond financed mortgages outstanding at the time of their contract expirations. Without adequate rents, many of these properties will default, valuable affordable housing will be lost, and HFA's, bondholders, and states will be left to suffer the financial losses.

The HFA's support moving to a system where rents are based on a property's financial needs, not on HUD's fair market rents (FMR's), which are often inappropriate for individual properties within a larger market area, or market rents, which require an administratively burdensome and costly analysis to determine. Allowing budget-based rents in many Section 8 properties still will yield budget savings, while preserving decent, affordable housing and avoiding deterioration and abandonment harmful to residents, the FHA insurance fund, and the state and local governments and neighborhoods where the properties are located.

MAKE HFA MULTIFAMILY RISK-SHARING PERMANENT

The HFA's thank you for continuing the very successful HFA/FHA multifamily risk-sharing program. In the three years since HUD allocated insurance authority to the 28 states it approved to participate in this program, including Alaska, California, Colorado, Idaho, Maryland, Missouri, Montana, and New Jersey, the states have financed more than 20,000 units of affordable housing.

Risk-sharing is a win-win approach for the states and the federal government. In return for sharing in the federal government's risk, HFA's are permitted to cut through the HUD bureaucracy and use their own proven and prudent financial underwriting standards. HUD has revised the credit subsidy rate for the risk-sharing program, so that it is now self-supporting and needs no credit subsidy. You can literally enable the financing of these units at no additional cost to HUD.

Mr. Chairman, the Missouri Housing Development Commission (MHDC) has financed three mixed-income properties providing more than 344 units, using risk-sharing, Low Income Housing Tax Credits, taxable and tax-exempt bonds, loans to be sold in the secondary market, corporate donations, and local government resources. At one development, O'Fallon Place, MHDC is restructuring a 675 unit family rental apartment complex located adjacent to the Vaughn and Carr Square public housing developments in a distressed St. Louis neighborhood. Residents of O'Fallon Place will benefit from the State of Missouri's Department of Social Services' Family Maintenance Organization demonstration, which will address welfare reform by helping families move into work and increase their self-sufficiency. In addition, the St. Louis Board of Education is working with the project's developer to transform the community's elementary and middle schools into top-notch neighborhood based schools with strong after-school and summer programming. In completing the O'Fallon Place project, Missouri will exhaust its risk-sharing unit allocation and require 300 additional risk-sharing units.

We appreciate your efforts to provide additional risk-sharing units in this year's supplemental appropriations bill. As you know, many states like Missouri will exhaust their allocations soon and HUD does not have any additional units to allocate. We recommend that Congress provide at least 7,500 units as soon as possible. We believe HFA's will need at least 10,000 additional units in fiscal year 1998 to continue operating their programs to meet demand. To avoid the need to constantly request more units and the uncertainty about whether those requests will be met, we strongly urge Congress to make the HFA risk-sharing program permanent so states can plan, generate more interest within the development community, and avoid diverting energy toward constantly seeking piecemeal unit allocations. In addition, we urge you to appropriate sufficient credit subsidy for HUD's other multifamily direct insurance programs.

Thank you for this opportunity to testify.

---

PREPARED STATEMENT OF CYRUS M. JOLLIVETTE, VICE PRESIDENT FOR GOVERNMENT RELATIONS, MIAMI UNIVERSITY

Mr. Chairman and Members of the Subcommittee: I appreciate the opportunity to present testimony on behalf of the University of Miami. The University is seeking your support for four initiatives within your purview: a HUD special project research and diagnostic institute initiative for children; a diabetes research initiative in the Department of Veterans Affairs; and two initiatives in the Environmental Protection Agency which address some of the urgent problems of South Florida's declining environment.

First, the University has embarked on the construction of one of the major children's research facilities in the nation, a state-of-the-art research building to house all basic and clinical research for the Department of Pediatrics in the University of Miami/Jackson Memorial Medical Center. The goals and mission of the facility are for the benefit of the children of Florida and the nation. We seek to create a children's clinical and basic research center of unmatched excellence, to facilitate con-

solidated, coordinated, interdisciplinary research efforts in pediatrics, and to study, treat, and ultimately cure childhood diseases.

Through HUD, the University seeks a $5 million special project grant which will be leveraged with $40 million in private contributions to construct a state-of-the-art pediatric research facility in Miami's urban core.

The $45 million facility will contain 145,000 square feet. The facility will contain outpatient research facilities for broad ranging clinical investigations including AIDS, cystic fibrosis, asthma, other lung problems, genetics, behavioral sciences, gastroenterology, endocrinology, critical care, neonatology, maternal lifestyles (and their effects on children), clinical research in Touch and many others.

Major space will be allocated for parent/patient education, in addition to extensive education programs of medical students, house-staff, and fellows in all areas of pediatric medicine. State-of-the-art laboratories are planned for cardiology, critical care, cancer, endocrinology, gastroenterology, neuromuscular genetics, infectious diseases/immunology, AIDS, pharmacology/toxicology, neonatal, pulmonary (asthma and cystic fibrosis), core facilities, shared research, and a vivarium.

Second, through the Department of Veterans Affairs, the University seeks to establish a Diabetes Research Center to marshall the expertise and resources in diabetes, immunology, transplantation, and of the closely affiliated Miami VA Medical Center, Jackson Memorial Hospital, and the University of Miami School of Medicine's Diabetes Research Center.

This partnership in one of the nation's largest academic medical centers will contribute greatly to the enhancement of diabetes care at the Miami VA Medical Center and stimulate and facilitate multidisciplinary research in diabetes at the Diabetes Research Center.

The VA/JMH/UM Medical Center is the only tertiary care academic medical center in South Florida, with a patient catchment area embracing more than 5 million people, as well as a large and growing number of referrals from outside the region.

Next, the focus of the coastal ecology research program within the Rosenstiel School's Division of Marine Biology and Fisheries (MBF) is on advancing the scientific understanding of coastal ecosystems and their interactions with humans. My colleagues have considerable expertise in coral reef, seagrass, hardbottom, mangrove, and wetland ecosystems in South Florida and the Greater Caribbean region.

Their coastal ecology research covers the range of hierarchy from biochemical, physiological, and behavioral studies on individual organisms, through studies on population dynamics, community ecology, ecosystem processes and landscape- and seascape-level ecology. Examples of their coastal ecology research include: studies on diseases and morphological anomalies as indicators of pollution affecting coastal fishes, and studies on fish biochemistry and behavior as indicators of environmental stress. The University seeks support through the Environmental Protection Agency to continue this important initiative.

Fourth, my colleagues at the Rosenstiel School of Marine and Atmospheric Science recently have discovered a possible connection between the occurrence of algal blooms in Florida Bay and the underlying rocks.

Based upon a series of core borings taken throughout South Florida, it appears that a confined bed composed of coarse quartz sand runs from areas close to Lake Okeechobee south underneath the Everglades and close to the surface in Florida Bay and Keys. Rosenstiel scientists have suggested that phosphate rich waters could be transporting this sand into Florida Bay, providing this essential nutrient to algal and plant life in the area. Excess supply of phosphate result in algal blooms which are detrimental to water clarity and life in the Bay.

It is important that this discovery be investigated as soon as possible. Funds are being expended in attempts to find solutions for excess phosphates, such as restrictions on agricultural sources. Results from this study could have significant impact on decisions which are being discussed by various agencies for remedying the perceived decline in Florida Bay. The support of the Environmental Protection Agency is crucial to this initiative.

Mr. Chairman, my colleagues and I know what a difficult appropriations year you face. However, again, we respectfully request that you give very serious consideration to these two projects so that the research progress already made is not lost. In the long-term, these national investments will provide continuing dividends in our mutual search for cost-effective solutions for the nation's problems.

PREPARED STATEMENT OF JAY LANE, PRESIDENT, JAY LANE ASSOCIATES

THE CONGREGATE HOUSING SERVICES PROGRAM

For the record, my name is Jay Lane. I am President of Jay Lane Associates, a consulting firm that works closely with public and private housing agencies assisting in the development of Congregate Housing Services Programs that allow frail elderly and people with handicaps to remain independent and avoid premature institutionalization. I have participated in the development and operation of Congregate Housing Services Programs for over fifteen years. I am the publisher of the "Congregate Report," a monthly newsletter with a nationwide circulation, that provides information and advice on funding and other issues related to the Congregate Program. My experience with the Congregate Program includes working with state and federal leaders in the development of legislation calling for the establishment of alternative housing programs that give people choices and allow them to remain independent. I have worked closely with local communities in the planning and design of programs that keep people out of nursing homes. Finally, and most importantly, I have worked closely with clients and their families who have been faced with having to enter a nursing home.

As you know, the Congregate Housing Services Program is being eliminated. The Program, funded in part through the United States Department of Housing and Urban Development, is scheduled to be phased out in 1998. New funding for the program has not been requested to extend existing contractual arrangements with participating housing agencies. Organizations that operate CHSP programs have been informed by HUD that existing five year commitments will begin expiring in August 1998 and that contract renewals will not occur unless authorized by Congress. It is HUD's opinion that this will not occur. HUD is not, nor has it ever advocated for the program. HUD's current position is that CHSP is being eliminated, along with other worthwhile programs, as a means of cutting the budget.

Currently, CHSP services are available in 130 public and private housing sites nationwide. Over 3,200 frail elderly and people with handicaps receive both housing assistance and supportive services through the Congregate Housing Services Program. The availability of these services in public housing allows residents "aging in place" to remain in their home, thereby avoiding premature admission to nursing homes. When the program ends, many of these 3,200 people that receive supportive services through the CHSP will no longer be eligible to reside in public housing. Once supportive services are eliminated, people lacking the functional ability to care for themselves will be forced into nursing homes or other forms of institutional care. This will come at a great expense to the American taxpayers since Medicaid will pick up the majority of the costs, which are estimated to be substantially more than CHSP.

The Congregate Housing Services Program [CHSP] was established by Congress in 1978 with the goal of preventing the premature institutionalization of elderly and people with handicaps residing in federally subsidized housing. In-home supportive services and non-medical attention would be provided to residents that qualified for the program. It was the intent of Congress to decrease unnecessary human and financial costs associated with placing people in nursing homes prematurely. At the time CHSP was created, Congress mandated an evaluation study to determine if these goals were realistic and could be attained by federally assisted housing agencies that agreed to participate. Congress was intent on determining if the program could successfully address three major concerns identified by administrators of elderly public housing:

(1) Would the introduction of supportive services assist Public Housing Administrators deal with long-term residents who were "aging in place?";

(2) Would people with special needs become eligible for public housing assistance as a result of supportive services specifically designed to meet their needs?

(3) Would the introduction of supportive services to the public housing subsidy program delay the premature institutionalization of frail elderly people into nursing homes and would this have an impact on the amount of money spent through the Medicaid Program to provide nursing home care to low-income elderly?

In 1978, at the time it passed the original CHSP legislation, Congress recognized it faced serious financial problems associated with the Medicaid Program. Congress was intent on determining if alternative housing and supportive service programs would prove to be a cost-effective alternative to placing people in nursing homes and could a program like CHSP reduce the Medicaid appropriations targeted to nursing home care.

Since its inception, all evaluations conducted on the Congregate Program have demonstrated conclusively that CHSP saves the taxpayers money and it promotes

the dignity of elderly people. The original evaluation on the program conducted by the Hebrew Rehabilitation Center of Boston in 1986, entitled ''Dignity, Independence and Cost Effectiveness: The Success of the Congregate Housing Services Program,'' presented the following conclusions: The CHSP is a cost-effective alternative to institutional care. All research, comparing congregate services to nursing home care finds substantial savings for congregate services when comparing costs for a typical person, over a specified period of time. The most careful cost comparison study conservatively estimates these savings to be $4,233–$5,880 per person per year.

An evaluation conducted by the University of Southern Maine in 1989 on a Congregate Program operated by the State of New Hampshire provided the following conclusions: The CHSP has been successful because of its ability to target resources to those most at risk of institutionalization. The majority of residents participating in the Program are frail elderly women living alone who have few financial resources. CHSP serves those who often have no other appropriate housing options. Additional sites would serve a similar, yet expanded population, reaching more of those in urgent need of supportive services, while at the same time saving Medicare and Medicaid dollars.

This evaluation documents that CHSP is especially less costly than nursing home services, where it was estimated that the State of New Hampshire would have paid more than twice as much per month. For the 21 clients who would have been in nursing homes if the CHSP did not exist, the State of New Hampshire would have paid $1,049 per month for each client under its share of Medicaid cost. This is almost twice the cost of Congregate Housing Services Programs. An additional $1,049 a month per client would also have been spent on these clients, but was instead available for other Medicaid-Funded Services.

An evaluation conducted in 1996 by the Connecticut Department of Social Services on the Congregate Housing Services Program operated within that State concluded the following:

CHSP improves the quality of life of its participants, promotes dignity and independence and is an extremely cost-effective alternative to placing people in nursing homes. At a minimum, the CHSP model addresses quality of life outcomes, facilitates elderly's independence through co-location of housing and supportive services, frees housing-management personnel to attend to other responsibilities and reduces turnover. Family members of program participants were unanimous in their assessment that the program had impacted positively on people participating. Many suggested that family members that participated in the program had an enhanced sense of independence, heightened social interaction, and increased access to supportive services.

When it came to cost, findings indicated that Connecticut's CHSP's average monthly costs of $522 were consistent with the national average for CHSP's. A typical nursing home in Connecticut is estimated to cost approximately $5,543 per month. Nursing homes costs are estimated to be more than ten times greater than most community-based options.

The University of New Hampshire is currently conducting an evaluation on a CHSP operated by the Laconia Housing and Redevelopment Authority in Laconia New Hampshire. Preliminary reports suggest that per day costs for the program are $22. The average rate for Medicaid reimbursed nursing home care in the State is $105 per day. Since the majority of clients participating in the CHSP operated by the Laconia Housing and Redevelopment Authority moved into the program from nursing homes, a substantial savings of taxpayers dollars is occurring. A final report on the project is due out in July.

New Hampshire, like many other states, has come to the realization that it is spending proportionately more for nursing home placement than any other form of care for its elderly people. New Hampshire institutionalizes roughly 68 people per 1,000 over the age of 65. This ratio is among the highest in the country. Oregon, for example, institutionalizes roughly 38 per 1,000. The reason for the high ratio of institutionalized people is that New Hampshire, like many other states, simply has not developed alternatives to nursing home care. Therefore, we are placing people in nursing homes prematurely at great expense to the taxpayer. According to New Hampshire's Commissioner of Health and Human Services, Terry Morton, at least a third and perhaps as many as two-thirds of the people residing in the State's nursing homes have the functional capability of living in an independent setting, like CHSP, if provided with services. If this were to occur, the potential for savings could be substantial.

The Congregate Housing Services Program should not be eliminated, it should be expanded. At a time when the fastest growing segment of our population is people 85 years of age and older, I do not believe it is prudent to dismantle a program that

has proven to be effective in saving money and promoting the dignity of the most vulnerable people in our country.

CHSP is not a program that relies exclusively on federal dollars in order to operate. The program, as designed, calls for the creation of partnerships between state and federal agencies, as well, as public and private entities with everyone participating in the cost. The federal government is responsible for 40 percent of the costs while the remaining money comes from participating partners, including clients. This shared arrangement encourages efficiency.

I strongly urge the committee to consider the long-term ramifications of eliminating the Congregate Housing Services Program. I am available to answer additional questions should they be required. Thank you for allowing me this opportunity.

---

PREPARED STATEMENT OF KATHYE GOROSH, PROJECT DIRECTOR, THE CORE CENTER

I would like to thank the Chairman and the Members of this sub-committee for their support for the Cook County/Rush Health Center, which has been permanently named "The CORE Center—For the Prevention, Care and Research of Infectious Disease." Their commitment has made a critical difference in the availability of appropriate health care services for those affected by and living with HIV and other infectious diseases in the greater Chicago area.

1. *The CORE Center: A unique solution for Chicago's public health crisis*.—Today, despite major technological and scientific advances, devastating infectious diseases such as HIV/AIDs, Tuberculosis and Sexually Transmitted Diseases (STD's), these diseases remain prevalent in Chicago and around the world. Efforts must be sustained with continued vigilance to detect, treat, and cure Tuberculosis and STD's or their resurgence will be devastating. The HIV/AIDs epidemic continues to be one of the most serious public health problems facing the nation today. It is currently the leading cause of death among Americans between the ages of 25 and 44 years of age. Today, the Centers for Disease Control and Prevention (CDC) estimate that there are between 650,000 and 900,000 Americans living with HIV in the United States. In 1995, the CDC reported that our country had unfortunately reached another milestone in the AIDs epidemic—over a half million Americans had been diagnosed with AIDs. In 1996, it was reported that 362,004 Americans had died of AIDs. These numbers continue to increase.

Although the number of AIDs cases is what primarily gets reported by the press, the real focus should be on HIV, the virus that cause AIDs. While the development of new and more effective drugs has allowed people to remain healthier longer and to delay the progression from HIV to AIDs, it remains critical that we stop the spread of HIV as well as provide early and comprehensive care to those already infected. It is also critical to recognize that regardless of a decline in the number of AIDs related deaths in the U.S., there is not a decline in the need for adequate care, treatment and research for HIV/AIDs.

Because of the resurgence of infectious diseases and HIV/AIDs, the Chicago area is in the midst of a severe public health crisis. Over 35,000 people in the Chicago metropolitan area are currently infected with HIV/AIDs. Approximately, two-thirds of those infected are not receiving treatment.

An examination of the profiles of patients who receive HIV services at Cook County Hospital reveals that Cook County Hospital cares for 75–80 percent of infected women and roughly one-third of infected children in the Chicago Eligible Metropolitan Area (EMA). 72 percent of program clients at Cook County Hospital are African American. Of all the patients seen at the Cook County HIV Primary Care Center last year, 916 (46.4 percent of all clients) of the patients seen were HIV positive and 986 (49.9 percent of all clients) of the patients seen were AIDs diagnosed.

One in every 9–10 beds at Cook County Hospital is occupied by a person with HIV/AIDs. Approximately 30 percent of those inpatients could be seen on an outpatient basis if specialized services were available—saving $6 million per year.

In addition to HIV/AIDs, sexually transmitted diseases continue to be a major cause of morbidity in the greater Chicago area. STD's, which increase the likelihood of HIV transmission three to five fold, have increased at alarming rates since the 1980's. In fact, in 1996, the CDC reported that STD's—most of which are curable through the use of conventional treatments and drugs—accounted for 87 percent of the top 10 percent of transmissible diseases in the nation.

The landscape of the AIDs epidemic is changing daily—much faster than care providers are able to handle. Today, people of color make up nearly 50 percent of all reported AIDs cases. Those indirectly affected by AIDs also present a rapidly increasing need. For example, by the year 2000, it is expected that 144,000 children

will be left motherless by the AIDs epidemic. Obviously, these new dimensions require new and innovative community-based prevention and care strategies.

While the federal government has and will continue to provide leadership in the battle against AIDs and other infectious diseases, these afflictions will ultimately only be conquered at the local level through the implementation of comprehensive systems of care which involve every sector of the community.

Regardless of these dramatic statistics, the serious increase in the demand for outpatient services and the obvious public health crisis, no comprehensive community-based system of specialized outpatient care and support services has been available to help reduce unnecessary, disruptive, and costly hospitalization while maintaining the quality of life for people with HIV/AIDs—until now.

2. *The CORE Center: For the prevention, care and research of infectious disease.*—It is clear that we must take immediate and decisive action to address the HIV/AIDs crisis in the greater Chicago and across the nation. A community-based commitment is required to develop and coordinate the complex medical and social interventions necessary to address these diseases effectively. Both public and private local health care providers must develop the resources and linkages needed to effectively address this health crisis. As a result, Cook County Hospital and Rush-Presbyterian-St. Luke's have combined their resources to develop "The CORE Center: For the Prevention, Care and Research of Infectious Disease."

Construction of The CORE Center, the result of an unprecedented public/private partnership, is scheduled to begin by this summer. The Center's design is the culmination of a focused team effort that has involved collaboration between HIV/AIDs patients, architects, doctors, nurses, other health care professionals, community members, representatives from the business community and government officials. It will provide a system of specialized health care and an array of support services for community-based health care providers to improve the care of persons with HIV or related infectious diseases who do not need to be hospitalized. As people continue to live longer with HIV/AIDs the demand for services, especially outpatient services, continues to increase. The CORE Center will provide that care and, at the same time, provide access to clinical trials and emphasize the importance of prevention and education in combating this epidemic.

With a full range of services available for the first time in a centralized location, the Center will provide a missing link in the public health system thus creating a full continuum of community-based outpatient medical care for people with HIV disease who currently do not receive adequate care.

The new 60,000, square foot, state-of-the-art, Center will boast many times the space now available for HIV/AIDs services at Cook County and Rush combined. The facility will combine and expand the capabilities of both institutions. The new Center will effectively house current programs and make it possible to address the growing numbers and needs of infectious disease patients.

PREVENTION AND EDUCATION

The HIV program at Cook County Hospital has responded to the current health crisis by providing extensive outreach, prevention and education services. In 1995 alone, the Women and Children's Program at Cook County Hospital went out into the community and educated 6,979 children ages 11–14 about HIV risk reduction.

Prevention and education are essential components of the Center's comprehensive approach to the care of HIV/AIDs and other related infectious diseases. The CORE Center will focus significant resources on community-wide prevention strategies and education programs. The Center's programs will include a major specialized training program for physicians and other health care professionals, including: clinical care, lectures, clinic observations and psychosocial interventions; targeted programs for people at risk, especially women, children, and minorities; HIV counseling and testing; and bilingual community forums to extend the reach of the Center's prevention and education programs. Prevention programs will be tailored for specific populations and the Center will actively recruit members of these populations to their peer education courses.

KEY FEATURES AND ON-SITE SERVICES

The design of The CORE center is meant to provide a sense of security and dignity to patients and families. A primary focus in the design of the facility is the comfort and ease of use by patients and staff. Key design features include:

—Graduate levels of care on each ascending floor of the four-floor facility—moving from education, prevention and screening programs on the first floor to treatment areas for the most seriously ill patients on the fourth floor.

—Multi-functional space throughout the building so that clinical and administrative areas can be easily reconfigured to adjust to the development of new modes of treatment.
—Medical care services which are integrated with essential support services, such as: child care, mental health and case management, and integrated with research in new treatments.
—Specialized space and programs for adolescents, people with chemical dependency and for women, children and families with HIV.
—A resource center library and classrooms to enhance the effectiveness of prevention and education programs.

RESEARCH

Recent breakthroughs in drug therapies give reason to be hopeful for the successful treatment of HIV/AIDs now and in the future. The Center will carry out critical research to continue the search for a cure, as well as develop new treatments that will help prolong the comfortable and functional lives of HIV/AIDs patients.

RESOURCE AND REFERRAL SITE

The CORE Center will serve as a resource and referral center for the growing network of primary care providers currently delivering community-based care for people with infectious diseases. It will provide increased access to the sophisticated medical services of institutions like Cook County Hospital and Rush-Presbyterian-St. Luke's Medical Center. The Center will supplement services available through the providers in the community-based system, enabling them to serve clients more efficiently and effectively and avoiding costly duplication of services. Community providers will now be able to refer patients to the Center for a definitive diagnosis, specialized care or participation in clinical trials. Patients can then return to their own primary care provider or clinics for continuing care.

3. *Cook County Hospital and Rush-Presbyterian-St. Luke's Medical Center: A tradition of excellence.*—As leaders in HIV/AIDs research and model service delivery, Cook County Hospital and Rush-Presbyterian-St. Luke's Health Center are highly capable of delivering programs of highest quality care and are uniquely qualified to develop and operate the Center in response to this urgent, community identified, health crisis.

Each institution has in-depth experience with infectious diseases, especially HIV/AIDs, and a history of successful affiliation with one another. They are Illinois' largest public and private hospitals. Traditionally, Cook County Hospital has cared for approximately 30 percent of the HIV population receiving care in the Chicago area and has an international reputation for HIV model care programs, prevention and research. The Infectious Disease Section at Rush has been nationally recognized for its HIV treatment program since it was created in 1986. Rush, a leader in clinical HIV related research also coordinates an acclaimed service of national physician training sessions on HIV/AIDs. In addition, the two hospitals are already integrated for the provision of training and clinical care.

It is these existing strengths and collaborations that will enable The CORE Center to provide the most comprehensive and expert care available in the country.

4. *A national prototype.*—This unique partnership and model system of care will be a prototype for national efforts to meet the challenges posed by infectious diseases, especially, HIV/AIDs.

It is estimated that in its first full year of operation, operating and programmatic costs will be approximately $14.5 million.

In light of the Subcommittee's support for community-based solutions to unique public health problems, and the current public health crisis in Chicago, we are requesting that you include $2 million for the operational and programmatic support of The CORE Center in the fiscal year 1998 VA-HUD-Independent Agencies Appropriations Bill.

Thank you Mr. Chairman for your consideration of our request.

---

PREPARED STATEMENT OF THE AMERICAN ASSOCIATION OF RETIRED PERSONS

American Association of Retired Persons (AARP) appreciates this opportunity to comment on funding next year for housing programs which affect the lives of many low-income older Americans. We also want to take this opportunity to acknowledge the Subcommittee's historical support of initiatives which benefit the elderly.

Our recommendations can be summarized as follows:

*Secs. 202 and 811.*—Provide sufficient funds for the Sections 202 and 811 Housing Programs in order to continue current production levels of project-based assistance to older persons and persons with disabilities;

*Alternatives for younger persons with disabilities.*—Make available to public housing authorities the resources necessary to develop and adapt alternatives to elderly housing for younger individuals with disabilities. Designate at least 5,000 vouchers for persons with disabilities and target them to housing authorities most affected by the "mixed population" problem;

*Housing counseling.*—Provide sufficient funds for the Housing Counseling Program, which is under statutory obligation to provide counseling to reverse mortgage consumers;

*Supportive services.*—Set aside adequate resources for Public Housing Supportive Services;

*Congregate housing services.*—Set aside funds to continue existing projects under the Congregate Housing Services Program;

*Section 8 assistance.*—Provide sufficient resources to continue Section 8 assistance contracts; and

*Corporation for National and Community Service.*—Provide sufficient funds for the Corporation for National and Community Service.

FULFILLING THE PROMISE TO SERVE OLDER PERSONS AND PERSONS WITH DISABILITIES

Despite policy differences that will undoubtedly be debated at great length in Congress this year, nearly all parties agree that the time has come to weed out ineffective programs, wasteful bureaucratic structures, and counterproductive regulations. Entrepreneurial government and rewarding success have become the new themes of housing policy discussions. As the debate continues, AARP believes that it is also important to remember and reward existing programs that work, including elderly housing programs.

Relevant parties in the public and private sectors have all acknowledged that programs like Section 202 Elderly Housing work well for older persons with low incomes. The Association is mindful of the need to produce housing as cost effectively as possible. We stand ready to work with the authorizing committee in this regard. However, pending any changes that would improve the productivity of the existing Section 202 program, we urge that funding be provided to allow for current production levels next year.

The Administration's Section 202 budget request represents a cut of more than 53 percent below the existing appropriation and would severely curtail the production of specialized rental housing for the elderly. The number of new housing units to be constructed would drop from 8,526 to 3,865. Section 202 helps meet an acute housing need for frail, low income older persons. Research indicates that eight people are waiting for every one vacancy that occurs. Meanwhile, many elderly are forced to live in unsafe housing and unsafe neighborhoods because of limited resources. The average Section 202 tenant is a frail woman in her mid-seventies living on an annual income under $10,000. Cuts made here, Mr. Chairman, really end up hurting those most in need.

In addition, AARP urges that a minimum of 5,000 vouchers be designated to fund the tenant-based assistance program for younger persons with disabilities authorized in the Housing and Community Development Act of 1992. We recommend that these vouchers be targeted to public housing authorities (PHA's) which have been most affected by problems that have occurred as the result of housing the younger disabled with the elderly. PHA's need these resources along with additional development and modernization funds in order to meet the challenge of providing real housing alternatives and choices to younger persons with disabilities.

One of the thorniest issues to face FHA and policy decision-makers is the restructuring of the current inventory of FHA-insured housing, much of which has rental assistance under Section 8 or other programs. Seeking to reduce HUD's long-term rental assistance costs, the Administration has proposed a plan to "mark to market" the properties and convert the project-based assistance to tenant-based assistance as contracts expire. Proponents contend that both quality and price should improve as housing providers are subjected to competitive pressures of the marketplace. Also it is argued that the process would significantly reduce the Department's future requirements for budget authority and help move the Administration toward meeting its deficit reduction goals.

Unfortunately, the Administration's plan leaves many questions unanswered relating to the transition and long-term program effects on project residents. The answers will be critical in evaluating whether or not the risks inherent in this approach—rent increases or displacement—are worth taking. Pending legislative reso-

lution of these important program questions, AARP recommends that sufficient resources be provided to continue extending assistance contracts as provided under existing law.

Because almost half of the residents of Section 8 projects are elderly, the risks associated with the Administration's proposal must be weighed carefully. HUD has proposed to protect current residents against negative effects by providing an "enhanced voucher" that would pay the difference between 30 percent of the household's income and the new market rent for the unit, even if that rent were higher than HUD's normal limit for the locality. However, a recent General Accounting Office report notes that these enhanced vouchers would increase the costs of the "mark to market" proposal, making the program savings from the change less clear-cut. Further, the proposal does not answer the question of how to successfully relocate displaced tenants in tight local markets. AARP understands that the Administration is currently considering a "choice coupon" proposal that would give such residents the option of remaining in their current housing unit. But it should be emphasized that the majority of elderly projects are working very well now. The burden of proof, therefore, is very high in demonstrating that the outcome of the dramatic changes proposed is likely to be substantially better than more modest improvements to the current system.

PROMOTING THE INDEPENDENCE OF FRAIL OLDER PERSONS

AARP recommends that no less than the proposed $50 million for public housing supportive services continue to be set aside out of the Community Development Block Grant (CDBG). These resources are used to support a variety of eligible activities including nonmedical, congregate services to the frail elderly as well as Service Coordinators.

Service Coordinators have proven their value as part of the management team in elderly housing projects. The need for such coordinators is especially acute in public housing projects for the elderly, which often include large numbers of residents with mental and physical disabilities. AARP believes that the cost for such personnel should be made part of routine operating expenses of elderly housing projects. We recommend that HUD be encouraged to fund them as part of operating budgets.

The first contracts funded under the Congregate Housing Services Program (CHSP) are due to expire next year, curtailing services that are desperately needed by frail and disabled tenants of public and assisted housing. Many of the estimated 4,000 tenants currently assisted by CHSP will be forced to relocate to expensive and confining nursing homes. AARP recommends that these expiring contracts be extended for another year by setting aside sufficient resources in the CDBG program. We further recommend that HUD be directed to come up with an alternative strategy for providing future funding for these vital services.

AARP also urges that sufficient funds be made available next year for the Housing Counseling Program. This program requires independent counseling for those elderly homeowners who seek FHA-insured reverse mortgages. These mortgages allow older homeowners who are "house rich but cash poor" to tap into the equity in their homes to pay for meeting basic needs. Given recent reports of scam artists taking advantage of older homeowners who seek such mortgages, the need for adequate resources to continue the Counseling Program is critical.

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

AARP further recommends that sufficient resources be made available for programs administered by the Corporation for National and Community Service. Older Americans are not only participants in programs like AmeriCorps, but recipients of its community-based services as well. And many older persons participate in programs as mentors and tutors to youngsters in schools across the nation. These valuable activities foster civic responsibility and strengthen the ties that bind us as a people.

Thank you again for this opportunity to comment on some of the Administration's budget proposals for fiscal year 1998.

---

## PREPARED STATEMENT OF JAMES H. MULLEN, JR., VICE PRESIDENT FOR STUDENT AFFAIRS, TRINITY COLLEGE

EXECUTIVE SUMMARY

Founded in 1823, Trinity College is an independent, nonsectarian liberal arts college with an enrollment of about 1,800 undergraduates and 200 graduate students. Its academic excellence was recognized as early as 1845, when it became the eighth

institution in the nation to be granted a chapter of Phi Beta Kappa. Trinity's demanding vision of higher education is shaped by three fundamental commitments: to excellent instruction that is personal and conversational, to the rigorous pursuit of the liberal arts, and to reaping the educational advantages of its setting in Connecticut's capital city.

As one of the nation's preeminent liberal arts colleges, Trinity sustains and nurtures a diverse community of learning united by a common engagement with the classic liberal arts tradition. Within this context, in recent years, one of the College's chief aims has been to connect its goals and mission to its urban environment in ways that reflect a fundamental commitment to the City and to its rigorous liberal arts curriculum.

Trinity's new commitment, the Neighborhood Initiative, was announced in January of 1996. The Neighborhood Initiative is a comprehensive $175 million effort to revitalize the historic communities surrounding Trinity's campus in South Hartford. The initiative is designed to create a safe, viable area which also is a central hub of economic development, new jobs and educational, health, and family support activities. The initiative reflects an emerging national trend in which institutions and communities are joining forces to solve urban problems and create mutual growth and development. For Trinity and for Hartford, the Neighborhood Initiative marks the highest level of collaborative engagement and activity since a group of Hartford residents worked together to establish the College almost 175 years ago. The partnership includes a unique mix that successfully joins a largely impoverished Latino community with city/state government agencies, private businesses, hospitals, and a prestigious liberal arts educational institution.

The Neighborhood Initiative will reinvigorate an economically distressed neighborhood in the southern part of Hartford with a comprehensive, cooperative and bottom-up philosophy. It will do so analyzing the problems of the neighborhood within the broader context of the problems of the institutions within that neighborhood. Each entity confronts the need to survive, and each has a stake in growth and development. Second, it strives to bring about revitalization through a corporate-institutional-community partnership that affirms the will, determination, and innate capacity of local residents. This is a program designed to offer the tools, education, and resources critical to the advancement of the people living in the area. It is renewal from within, not from without. It is renewal that is proactive, not passive. It is renewal that fosters self-sufficiency and creative problem-solving, not dependency and canned solutions. Finally, the project strives to reinvigorate a very manageable target area of the city. So while it is ambitious, it is also very manageable given the scope of the problems facing Hartford and other urban centers throughout the nation. In so doing, the project has great potential for serving as a model for other cities, institutions and urban areas confronting similar dilemmas.

THE NEED FOR COMMUNITY INVESTMENT AND RENEWAL

For the past decade, there has been a critical need for jobs, housing, recreation facilities, education and training in the Frog Hollow and Barry Square neighborhoods. In particular, there has been a need for leadership, resources and a spirit of cooperative problem-solving. It is that vision of development from within that will help local residents fulfill their dreams and rebuild their community. The Neighborhood Initiative fulfills that need.

Hartford is the fourth poorest city in the nation. A range of startling indicators highlight the need for comprehensive approaches to community development in Hartford:

—One child in three lives in poverty, compared to one in four nationally;

—A 1990 survey of three neighborhoods found 72 percent of homes female-headed, and 62 percent of households below the poverty line;

—45 percent of high school freshmen did not graduate with their class 4 years later, and only 50 percent of persons over 28 had high school diplomas; and

—A 1990 survey of two mainly Latino neighborhoods found 48 percent of households could not speak or read English.

Crime is significant in the neighborhoods of Hartford being targeted by this project. In 1990 there were 297 narcotics arrests of adolescents under the age of 17 in Hartford. There were 169 youth referrals to juvenile court for narcotics offenses in 1990. In the same year, there were 157 juvenile referrals for other types of crime. Staff of a local gang prevention project indicate girls are increasingly involved in illicit activity such as gun/drug trafficking, theft, and credit card falsification. Violence has become a way of life for many Hartford youth. In Connecticut, homicide is the second leading cause of death among 15–19 year-olds and the leading cause among minority males 15–24.

Increasingly, young people are affected by poverty and crime. Despite a decline of adolescents nationwide, Hartford is a disproportionately young city—one-third of residents are youth—and most youth are persons of color. Most city youth under 18 are African-American, Caribbean or Hispanic. The infant mortality rate is 21–35 percent, paralleling that of many third world nations. Teen pregnancy is chronic. Like Latinos nationwide, only 78 percent completed high school in 1990 compared to 91 percent for Anglos and 84 percent of African-Americans. A 1990 report on education in Hartford stated 45 percent of high school freshmen did not graduate with their class 4 years later, and only 50 percent of persons over 28 had high school diplomas. Dropping out of school is associated with linguistic and cultural isolation.

To further aggravate the situation, many families have abandoned their homes. In Frog Hollow about 13 percent of housing is vacant. Mobility is also high. One study reported that in the past five years Frog Hollow families moved between 3–6 times. Many local businesses have been forced to close down due to crime, poor sales, and lack of credit. Large employers have also disinvested, leaving families without jobs only to rely on public assistance and drug sales—for income. The mood created as a result of this collective message of flight and lack of confidence has resulted in a sense of anger, frustration, and despair.

AN ALLIANCE FOR ECONOMIC DEVELOPMENT AND COMMUNITY RENEWAL

The Neighborhood Initiative covers a 15-block area in the heart of historic Frog Hollow and Barry Square neighborhoods nestled between the College and Southside Institutions Neighborhood Alliance (SINA) partner institutions. SINA partners participating in the renewal efforts are: the Connecticut Children Medical Center, Hartford Hospital, the Institute of Living, and Connecticut Public TV and Radio. The revitalization effort encompasses renewed housing, increased home-ownership and employment opportunities, and retail and commercial development, as well as expanded parking and improved streetscapes, lighting and security. The aim is to create the underlying support and infrastructure needed for local residents to advance economically and educationally. The project strives to provide the tools, resources and skills needed by the community to move and develop from within. It seeks to recognize the innate potential of residents; capitalize upon their fortitude; and help people find their own solutions. Slated for completion by 2002, the Neighborhood Initiative will become a bedrock for a community that has long suffered crime, blight, disinvestment, gang involvement, nonresident homeowners, family fragmentation, and lack of stability and lack of credit. It will become home to hundreds of low- and middle-income families who will send their children to school in Learning Corridor schools; take pride in affordable single family dwellings; work in local businesses, and shop in newly developed retail stores.

The Learning Corridor is a cornerstone of the neighborhood revitalization initiative. The Learning Corridor is a comprehensive, community endeavor designed to offer general and specialized education, skills-building, and support to over 2,000 Hartford families, largely Puerto Rican, and hundreds of students of all cultural backgrounds living in the metropolitan region. To be constructed over the next four years directly east of the College on a former bus garage site acquired from the State, the Learning Corridor will consist of a unified physical complex within walking distance to shops, churches, child care, health facilities, libraries, parks, a college, and other basic resources. It will house the following educational and training projects: a regional Montessori-style public elementary school; a public neighborhood middle-school; a regional math, science and technology high school resource center; and, a regional arts high school program; and a professional teacher training and development center.

Also within the Learning Corridor will be broader programs to support family education and training, including: an early childhood and family support center, a youth development center, recreation facilities and a series of arts and cultural heritage programs and events. The overall endeavor will have linkages with numerous children, youth, and arts/cultural programs in the City and the region. The Learning Corridor will also generate and test new methods of redefinition and renewal that can be adapted to other colleges and universities in urban areas nationwide.

It is envisioned that the Neighborhood Initiative and the Learning Corridor will evolve into an independent community entity. It will be governed by a diverse group of education, business, governmental and community leaders from the neighborhood, the City and the region. Administrative and academic representatives from the College will also participate in the governing body. The latter individuals will, in part, come from a regional steering committee. This new community entity will also have its own identity and physical space within the Learning Corridor's central administrative offices. The Neighborhood Initiative will be an economic, cultural and social

anchor within Hartford's south end. It will deepen ties between residents and the College, as well as between residents and other SINA institutions. Further, it will create opportunities for learning engagements, volunteering, student internships, cultural exchanges, and a host of activities that will benefit students, faculty and health professionals at local institutions. Finally, it will offer learning challenges to hundreds of families residing in and outside of Hartford. It will also provide vitally needed training, health/social programs, recreation facilities, housing, employment and other services to local residents that will guarantee its vigor and life well into the next century.

The Neighborhood Initiative will generate significant employment opportunities within the community of South Hartford. Initial economic impact studies estimate that 400 primary jobs will be created from the construction and associated improvement efforts. Additional employment opportunities will be generated over the life of the entire project.

CORPORATE, STATE AND COMMUNITY SUPPORT

The Learning Corridor and the Neighborhood Initiative have broad support at the local, city, state and regional levels. Key entities that have been involved in planning and development include: institutional members of SINA, the Loctite Corporation, the Aetna Foundation, the Hartford Public Schools, State and City governments, the Boys and Girls Clubs of America, the Trinity Center for Neighborhoods, Hartford Areas Rally Together, Spanish American Merchant Association, Broad Park Development Corporation, Capital Region Education Council and Trinity Community Child Care Center. Numerous community leaders, residents, youth, and several local service organizations have also been participating in the planning. Fannie Mae's Connecticut Partnership office has provided technical assistance and funding for the development of an Employer Assisted Housing Program to provide incentives for employees to buy homes in the target area and Hartford.

The Learning Corridor and the Neighborhood Initiative also have the backing and intimate involvement of Trinity's President and senior administrative, academic and development staff and of SINA partner institutions. Together, the five SINA institutions have combined budgets of $500 million and a total of 7,000 employees in Hartford.

The project will provide a broad range of services for neighborhood residents that are important to the State and the nation. Hartford is the state capital, and has a large stake in restoring its physical and economic health. Hartford is also a regional center of growing importance along the northeastern corridor, with increasing ties to cities across the country through business and industry. As such, it plays an important role in the national economy. It is critical that the city be economically healthy. The present project will play an important role in achieving that end. It will offer within the southern sector of the city the following: home ownership opportunities, economic development, employment and training, education, early childhood screening, day care, family supports, and youth development. Each of these programs are designed to offer a comprehensive package that addresses the needs of the entire family from birth through old age. The aim is to revitalize an entire community in a way that fosters self-sufficiency and growth from within. The project is an important model for other urban centers experiencing similar problems. Both the State and federal government can point to the project as a powerful example of community-institutional partnership for urban renewal.

FEDERAL SUPPORT FOR AN INNOVATIVE APPROACH TO URBAN BLIGHT

Since the announcement of the Neighborhood Initiative by Trinity College President Dobelle in January 1996 the core staffing, consulting, and predevelopment costs for the Initiative and the Learning Corridor have been supported by financial contributions from the SINA institutions. Because Trinity serves as the lead institution it has added two new positions and created the Department of Institutional and Community Relations to support the Initiative. As the College and SINA move from planning to implementation with the components of the Initiative, the cost of improving the infrastructure and development capacity continues to increase.

The College seeks $4.3 million in Federal assistance to support the Neighborhood Initiative's planning, acquisition and environmental abatement, demolition, and coordination needs for next three years.

There are two types of planning activities that are needed for the next phase of the project. First, a long term master plan for each of four quadrants around Trinity College needs to be developed with intensive community involvement and support on a block-by-block level. The cost of each quadrant plan is $50,000 and will include a coordinated process that will bring together the present Neighborhood Revitaliza-

tion Zones Committee's plans and those of the merchants associations in each quadrant. Secondly, most of our current planning activities and resources have been aimed at the first-time buyers and home-ownership development. A significant amount of the current vacant or distressed housing stock is in multi-family buildings. A plan needs to be developed to determine which buildings require demolition, rehabilitation and/or changes in use. The plan must include an inventory of conditions: present use and potential future uses in the present market. The plan will include an analysis of current funding opportunities and how they could be packaged with institutional support to attract housing and retail developers to the target area. The plan is projected to cost $400,000 for acquisition and economic development plans in each quadrant.

Acquiring the 15 block target area is the Neighborhood Initiative's biggest challenge. Most of the properties in the area that are vacant need to be foreclosed by the city or written off by the mortgage holder. The College, SINA and the City are assembling parcels for the Learning Corridor. There are another 75 sites throughout the target area that need to be acquired. A minimum of 45 properties are proposed to be acquired with the assistance of the City of Hartford. The City, in most cases, will foreclose on buildings but their cost and tax write-off would be significant since there are about 600 abandoned buildings citywide. The SINA institutions have proposed to pay the city the cost of foreclosing and $10,000 per property (or $450,000 in total for the 45 target) in the back taxes. The cost of a non-contested foreclosure to the City is $3,000 and $5,000 if contested. If the assumption is that half of the foreclosures will be contested, then the cost will be in the range of $180–$200,000. The total cost of acquisition with assistance from the City is estimated at $650,000.

The other 30 properties will be acquired through negotiated sales involving the owner and their mortgage holder. These sales would be to a tax-exempt entity and land-banked until it is time to turn it over for development in the overall quadrant plans. In order to be able to develop successful plans, site control is important for attracting prospective non-profit and profit developers. We are proposing the establishment of a matching fund of $1 million for the purpose of purchasing the non-city assisted acquisitions. This fund will be matched with another $1 million from the SINA institutions.

In cases where rehabilitation of present structures are not planned or are unfeasible, the structures must be remediated for lead and asbestos, then demolished. This cost is prohibitive on two grounds. First, Trinity and SINA may not have an immediate reuse of the property when it is targeted for acquisition and some of the vacant property will be used for open-green space, recreation or community gardens. Absorbing this redevelopment cost in properties that in most cases have negative market value is a disincentive and an unreasonable risk. Second, in the event that the institutions decide to absorb the redevelopment cost associated with demolition, it is very unlikely that the cost could be recaptured in the development budgets since most of the initial projects will require an "affordability-subsidy" because the incomes of prospective buyers and renters are low. The costs of remediation and demolition are driven by location and future uses. An estimate of $1.5 million is needed for remediation and demolition of property.

As evidenced by the success of the coordination of the Learning Corridor, the College's Office of Institutional and Community Relations will serve as the lead implementation team that coordinates the community, city, state, federal, and private stakeholder that will participate in the Initiative. The Office requires $250,000 a year over a three-year period for a total of $750,000. This is in addition to SINA and Trinity's current total commitment to the Office of over $3.1 million.

SUMMARY

Responding to the escalating crime and unemployment in Hartford, the $175 million Neighborhood Initiative is an ambitious, yet realistic, solution to revitalizing the economically depressed community of South Hartford. The Initiative has brought together all aspects of the community, state and local governments to work together to help the area regain its economic and social stability to create an environment where businesses and community residents can flourish.

A $4.3 million community and economic development grant will help Trinity College, its SINA partners and the community to meet this crucial challenge of revitalizing the depressed areas of Hartford that surround the college campus and neighboring institutions. The Neighborhood Initiative will constitute one of the largest reinvestment efforts in a concentrated area of Hartford. It requires leadership and commitment and we ask that the Federal government be committed to being part of the solution.

FEDERAL GRANTS AWARDED

| | Dollar amount | Dates |
|---|---|---|
| Department of Education Program: | | |
| SEOG 96–7 E–P007A60799/5–20107 | $290,718 | |
| CWS 96–7 E–P033A60799/5–20109 | 203,495 | |
| PELL 96–7 E–P063P61376/5–20105 | 374,371 | |
| Perkins 96–7 E–PO38A60799/0–4500 | 55,139 | |
| Department of Housing and Urban Development: HUD COPC–CT–0024/5–20260. | 580,000 | |
| Department of Commerce: Department of Commerce-Langeland 09–40–96027. | 196,452 | 10/01/96–09/30/98. |
| Department of Agriculture: USDA–Archer 96–35311–3811/5–20237. | 43,743 | 10/15/96–10/31/98. |
| Research/Development | | |
| NSF–Brown ATM–9424423/5–20201 | 73,200 | 12/01/95–11/30/98. |
| NSF–Blackburn BIR–9512508/5–20202 | 221,000 | 08/15/95–07/31/98. |
| NSF–Bronzino BES–9509117/5–20203 | 75,000 | 03/15/96–08/31/97. |
| NSF–Lang DUE–9653736 | 190,093 | 09/01/97–08/31/99. |
| NIH-Bronzino 1 R15 NS/OD35287–01/5–20222 | 109,462 | 05/28/96–05/30/98. |
| NIH-Prigodich 1 R15 GM52712–01/5–20223 | 105,912 | 06/01/95–05/31/98. |
| NEH-Lang RH–21201–94/5–20230 | 111,000 | 09/94–08/97. |
| NEH-Lang EW–20283–94/5–20232 | 87,221 | 05/25/95–05/25/97. |

## PREPARED STATEMENT OF LOCAL INITIATIVES SUPPORT CORP.

The Local Initiatives Support Corporation (LISC) is pleased to submit this statement regarding fiscal year 1998 HUD Appropriations for the U.S. Department of Housing and Urban Development (HUD), and in particular three HUD programs that affect low-income communities—HOME, CDBG and the National Community Development Initiative.

### A NEW STABILITY FOR LOW-INCOME NEIGHBORHOODS

These three programs, along with the Low Income Housing Tax Credit (LIHC), have fueled a remarkable if unheralded wave of low-income community revitalization. Indeed, stability is returning to some of this country's toughest inner-city neighborhoods. The idea that these neighborhoods might be salvageable is potentially of great national significance, because it means that America has begun to find a way to confront one of its most serious problems. While there are many, many low-income neighborhoods in deep trouble, there are others with enough revitalization activity to establish substantial, sustainable progress. Most of these reviving neighborhoods are still poor and face numerous hurdles, but the evidence of regeneration is unmistakable: population has stabilized; physical conditions are much improved; crime is down; civic engagement is greater; bank lending and property values have increased; and public services are more responsive. A renewed sense of hope, pride and responsibility is spreading in the inner-city.

### THE ROLE OF COMMUNITY GROUPS

Nonprofit community groups formed by churches, civic associations, and ordinary residents have led most of the serious neighborhood revitalization efforts. Government and the private sector have become critical partners and undertaken subsequent activities, but neighborhood organizations have usually taken the first initiative.

Nationwide, these community development corporations (CDC's) have produced hundreds of thousands of affordable homes, and some have invested in commercial enterprises, or are involved in anti-crime, child care, job training, health care and other activities. Equally important, community groups have brought residents together with the private sector and government to create a new sense of hope for neighborhoods that the popular press and most other outsiders write off as irretrievable.

CDC's succeed in so many diverse places because they embrace mainstream American values. Because these values transcend ideology, CDC's have been able

to generate broad participation and are an attractive instrument of public policy. We believe CDC's have been ahead of many of the emerging changes in federal policy.

—Self help.—CDC's are vehicles that community residents create to take responsibility for improving their neighborhoods and enforcing pro-social behavior.

—Community building.—CDC's bring people together, reinforce the social fabric, and bolster community institutions from churches to little leagues. Their mission to rebuild communities physically, economically and socially transcends housing or any other single issue.

—Local control.—CDC's bring decision making down to the neighborhood level, where it is closest to the people. CDC's work well with city and state officials.

—Partnership.—CDC's are pragmatic and collaborative, not confrontational. They recognize that no single organization can revive a neighborhood alone. CDC's, government, and the private sector—lenders, investors, property owners, developers, businesses, foundations, and others—all contribute to and benefit from community development activities.

—Investment.—The only long-term, sustainable way to revive low-income communities is through investment, private as well as public. A principal function of public investment is to stimulate private investment, create healthy, functioning markets, and to connect isolated, distressed communities to the economic mainstream.

—Tangible results.—This is perhaps the most important and distinguishing characteristic of CDC's. The visible results of community development, such as housing and retail development, are verifiable proof that community development works. Less tangible outcomes—greater community cohesiveness, new relationships with public and private institutions, stronger community leadership, and a new sense of hope and progress—are undeniably important, but it is CDCs' tangible results that set them apart from many other efforts and impart credibility to claims of less visible outcomes.

HOW LISC HELPS CDC'S

LISC was created 17 years ago as a nonprofit organization to enable the private sector to assist CDC's in their efforts to transform distressed neighborhoods into healthy communities. LISC operates with the convictions that: community regeneration must come from within the community itself; that government at all levels, the private sector, and community residents all have critical roles to play and must work together as active partners; and that CDC's are the most effective agents for fighting poverty in the most distressed communities in the United States.

Our first name is "Local." We are a constellation of 37 local programs nationwide, a list of which is attached, serving over 100 cities and urban counties. Funds raised locally are matched by national LISC on a formula basis. Each LISC program is served by local staff and governed by a local advisory committee. In addition, in November 1995, we began a new Rural LISC program to invest $300 million through 68 rural CDC's nationwide.

We believe that engaging the private sector is essential to the community development process. Private involvement is not a substitute for governmental funding, and public funds are necessary to make private investment feasible. But community development requires that isolated neighborhoods join the economic mainstream. Not only is the active involvement of the private sector necessary to community development, but business leaders genuinely want to participate. It is our job—and, we would assert, the government's job as well—to create opportunities for them to do so.

Our primary focus has been to build the financial and technical capacity of CDC's to sponsor housing and commercial development projects. We provide project financing and technical support to CDC's: grants, loans, recoverable grants, equity investments and loan guarantees for project development, operating support, and up-front predevelopment costs. Since 1979, LISC has provided $2.2 billion in grants, loans and equity investment to over 1,400 CDC's nationwide. The funds have, in turn, leveraged an additional $3.1 billion in financing to build or rehabilitate over 68,000 homes and apartments and create 9.6 million square feet of commercial and industrial space. We provided $481 million in grants, loans, and investments to CDC's in 1996 alone.

LISC has also expanded the scope of our support for the wide range of activities undertaken by CDC's including social community development, and a wider range of economic development activities.

HUD'S ROLE

We believe that, in general, HUD's role should be to support the efforts of local communities to meet their housing and community development needs. Two HUD programs that do just that are the HOME Investment Partnerships Program (HOME) and the Community Development Block Grant (CDBG). They, along with the Low Income Housing Tax Credit (LIHC), have fueled the neighborhood revival process. The constraints on HOME, CDBG and LIHC's are now a principal bottleneck constraining neighborhood revival. In many cities, competition for these scarce resources means that many important projects must wait two or three years to get funding, and private investment is being choked off. We may be losing this historic opportunity to reclaim not just neighborhoods and the families who live there, but something even more precious: our self-confidence as a nation to solve our most difficult problems.

Attached to this testimony are seven descriptions of projects developed with the help of HOME and/or CDBG funds. We believe these stories will help illustrate the important work both programs help to produce.

*HOME*.—HOME is now seen as HUD's most important tool for producing affordable housing and an indispensable resource for nonprofit and for-profit sponsors and state and local governments.

The National Housing Task Force, convened in 1987, conceived what in 1990 became the HOME program as the centerpiece for the Cranston-Gonzalez National Affordable Housing Act. Congress and the task force intended HOME to be a flexible resource to strengthen state and local housing production systems, in stark contrast to previous federally driven approaches, and to engage CDC's and private developers, investors, and lenders as active partners in the process.

Since 1993, when regulations implementing crucial amendments were issued, HOME has become an invaluable resource. States and localities have been spending funds expeditiously. HOME has already assisted over 230,000 housing units at an average HOME contribution of $19,800. In addition, roughly 31,000 families are receiving HOME tenant-based rental assistance. HOME is combined effectively with other sources of financing and works extremely well with the Low Income Housing Tax Credit program. Each dollar of HOME has attracted an additional $1.79 of other funds; LISC has participated in the financing of many of these properties.

We are especially pleased by the way HOME is helping to forge new local partnerships with CDC's. We strongly support the 15 percent set-aside of HOME funds in each state and locality for nonprofit Community Housing Development Organizations (CHDO's), whose definition accommodates the vast majority of CDC's. In addition, the 1992 amendments permit states and localities to use up to 5 percent of their HOME funds to support the operational expenses of CHDO's. These provisions have sparked new and greater opportunities for CDC's. Where CDC's and state and local governments already had good relationships, HOME has strengthened and deepened those relationships. Elsewhere, HOME has brought CDC's and state and local governments together for the first time.

*CDBG*.—The Community Development Block Grant program has for many years been a critical resource for CDC's and low-income communities generally. While HOME has focused primarily on housing production, CDBG is used for a broader range of activities critical to low-income areas, including economic development, community facilities such as health clinics, day care centers, and youth recreation centers, infrastructure, and certain public services. Numerous CDC's use CDBG for a wide range of activities and the vast majority of funds benefit low-income people and areas. In fact, in a major 2½ year study of the program, the Urban Institute concluded: "* * * in every city, neighborhoods would have been worse off had the program never existed, and certainly, cities would not have embarked on the housing and redevelopment programs that now comprise a core function of municipal government."

Over the last three years, Congress has shown its support for HOME and CDBG by providing them level funding during a period of severe pressure to reduce the domestic budget. Achieving level funding was seen as a success since many other HUD programs were cut deeply. Yet, continuing to deny increases to these programs is no longer satisfactory.

We urge Congress to continue its strong past endorsement of both programs by approving modest increases in their appropriations. We support fiscal year 1998 appropriations for the HOME program of at least $1.5 billion—a $100 million increase over the fiscal year 1997 appropriation of $1.4 billion. For the CDBG program, we support an appropriation of at least $4.6 billion for the core CDBG program allocated to states and localities. All funding for new or existing set-asides within the

program should be either funded as separate programs or provided funding in addition to the $4.6 billion.

NATIONAL COMMUNITY DEVELOPMENT INITIATIVE

Just like private business, CDC's start small and grow over time. As CDC's grow, they can take on new and more complex challenges, but again, similar to small businesses, they can experience growing pains. Capacity building programs are needed to help CDC's successfully manage growth to become financially stable, sophisticated organizations, poised for even greater productivity. Capacity building may include board and staff training, funds for equipment, asset management training, and a wide assortment of other activities geared towards strengthening the operations of CDC's.

One successful capacity building program is the National Community Development Initiative (NCDI). LISC helped to conceive the NCDI under which seven private foundations and the Prudential Insurance Company provided $62.8 million in grants and loans to assist CDC's in developing 4,400 affordable new homes. LISC and the Enterprise Foundation administer the funds. In 1993, the Congress authorized and appropriated $20 million for HUD to contribute for the second phase of the program. This modest federal participation attracted $87.7 million in grants and low-interest loans from 10 national foundations and corporations as match for the federal funds. LISC and Enterprise have passed every federal grant dollar through to CDC's primarily for capacity building activities. Over the course of the program, over 15,000 units of affordable housing have been made possible by this partnership. We expect these nationally raised funds to generate at least another $1.4 billion in project financing and other support, a remarkably effective use of federal funds. In 1996, another $10 million NCDI participation was approved as part of the HUD Extender Bill. Along with the $10 million requested by the Administration for fiscal year 1998, we expect this HUD participation to attract even higher levels of private sector participation in the NCDI program.

The Administration is requesting an additional $10 million for the National Community Development Initiative (NCDI) as a set-aside within the CDBG program for fiscal year 1998. We support at least this funding level for NCDI as a separate account.

CONCLUSION

America faces its most pressing problems—adjusting to economic change, controlling crime, improving public education, and reducing welfare dependency—most intensely within the inner city. We as a nation cannot successfully meet these challenges unless we take them on in the cities. Nor can the cities consolidate and build on their nascent recovery unless they effectively meet these same challenges. What is new is that effective local initiatives, bolstered by six years of economic expansion, have created an organizational, economic, social, and physical foundation on which to build.

So, Congress deserves praise for rewarding the good performance of the HOME and CDBG programs by maintaining level funding for the past three years. However, we support an increase in both programs as well as funding for NCDI, to help continue to support the efforts of effective community groups.

This concludes LISC's statement.

35 LISC PROGRAM AREAS

Baton Rouge, Bay Area, Boston, Chicago, Cleveland, Connecticut Multi-Cities, Detroit, Hartford, Houston, Indiana Statewide, Northwest Indiana, Indianapolis, Kalamazoo, Kansas City, Little Rock, Las Vegas, Los Angeles, Greater Miami, Michigan Multi-Cities, Milwaukee, Mid-South Delta, Monongahela Valley, New Orleans, New York City, Newark, Palm Beach County, Philadelphia, Phoenix, Puget Sound, Rhode Island, Richmond, San Diego, St. Paul, Toledo, and Washington, DC.

---

KANSAS CITY CDBG PROJECT

*Project Name.*—Metropolitan Homes
*Project Address.*—31st and Brooklyn, Kansas City, MO.
*CDC Sponsor(s).*—CDC of Kansas
*Number of Units.*—60
*CDBG Funds.*—$1,200,000
*Total Project Costs.*—$5,479,637

Metropolitan Homes is a newly-constructed affordable rental housing project built with the intent to meet the diverse needs of residents living within the Linwood/ Prospect area. Located within Kansas City's core urban communities, this area was once known for having the highest crime rate, three times the poverty rate, twice the unemployment rate and half the median housing value of the city. In order to address chronic distress of abandoned buildings, drug dealing and middle-class flight, the Community Development Corporation of Kansas City (CDC–KC), developed Metropolitan Homes.

CDC–KC is a non-profit community-based organization founded in 1970. Since its inception, CDC–KC has primarily concentrated on commercial redevelopment. However over the past eight years, CDC–KC has vigorously pursued a multi-faceted community development strategy, including housing and commercial development and social service activities. During this time, CDC–KC produced over 150 homes affordable to low- to moderate-income families. With a staff of 13, the CDC–KC has helped create more than 1,200 new jobs, including 560 jobs to construct and operate of three commercial retail centers.

CDC–KC provides a broad range of services for its tenants and community residents. For example, home healthcare service is available for residents with special needs, while a transportation company provides reverse commute services to Metropolitan Homes residents at a reduced cost.

Metropolitan Homes is a 60-unit project comprised of five buildings with 12 apartments each, half of which have garages. Each two-bedroom unit contains nearly 900 square feet of living space. The apartments, which rent for $400 a month on average, provide homes for ten families with incomes at or below 50 percent of area median income ($23,150 for a family of four), and 50 families that earn no more than 60 percent of the area median income ($27,780 for a four-person household).

A host of public and private organizations contributed to make this project possible. CDC–KC received a ten-year tax abatement on the property by the city. The National Equity Fund invested $2.7 million through the Low Income Housing Tax Credit program while Boatmen's Bank and the Housing Development Corporation and Information Center made construction loans for $1.1 million and $1 million, respectively. An allocation of $1.2 million in Community Development Block Grant funds was made by the City of Kansas City. In addition, the Kansas City Redevelopment Authority cleared the land and did preliminary site work at no cost.

Due to the proximity of the property to the Metropolitan Missionary Baptist Church, CDC–KC formed a strong bond with this active institution. The church played a leadership role in finding tenants, which happened in less than 90 days. Today, many church members are Metropolitan Home residents.

Metropolitan Homes is part of broad long-range economic redevelopment plan developed by the CDC–KC. The apartments are not only conveniently located within walking distance of churches and schools, but are adjacent to other CDC–KC developments such as the Linwood shopping center area and a retirement community.

The fact that Metropolitan Homes provides a safe environment and source of quality housing for its residents has not gone unnoticed. Last year, CDC–KC was honored with the Maxwell Award of Excellence from the Fannie Mae Foundation for its innovative approach to the development of Metropolitan Homes. In their support for nominating Metropolitan Homes for an award, its residents said that living there "gives them a sense of security and comfort". Moreover, one widowed resident, wrote: "It's clean, quiet and private, a place where my daughter and I can call home".

NORTH LITTLE ROCK HOME PROJECT

*Project Name.*—Argenta Home Rehabilitation
*Project Address.*—108 Melrose Circle North Little Rock, AR.
*CDC Sponsor(s).*—Argenta Community Development Corporation
*HOME Funds.*—$27,200
*Total Project Costs.*—$63,000

For many years, the historic Argenta neighborhood of North Little Rock, Arkansas maintained the highest crime rate in the city. Yet, many dilapidated single family bungalows and vacant lots offered opportunities for development. In 1994, the Argenta Community Development Corporation (Argenta CDC) was created by residents who had formed a Booster Club to identify properties which needed substantial improvement. Argenta CDC enjoys a strong base of neighborhood support, with over 270 people on the CDC membership list.

In just two short years, the CDC's efforts have brought more than $1.6 million into Argenta to renovate single-family homes. A total of 23 single-family have been rehabilitated. Sales of renovated homes have been swift, and the transformation of

the area has been remarkable. A neighborhood once plagued with crime and instability is home to new homeowners in well-maintained houses. More families have been moving back into Argenta, crime rates have plummeted and a new sense of neighborhood pride is spreading.

One of the homes Argenta CDC assisted was 108 Melrose Circle. Originally constructed in 1924, the house remained abandoned for several years prior to the Argenta CDC's purchase. The house was in disrepair from years of neglect and a series of haphazard and unsafe additions. It also represented an arson risk. The CDC's improvements to the house resulted in the creation of a 3-bedroom, 2-bath home to accommodate Michelle Martin and her family.

Michelle Martin was born in North Little Rock. One of five children, she was raised by a single mother in a poor area of the city. Michelle became a single unwed mother herself at age fifteen and left school after the ninth grade.

As an adult, Michelle lived in public housing for seven years, and was supported by welfare and food stamps. In 1985, through her own efforts, her life began to take a turn for the better. She became an employee of the North Little Rock Public Schools, and is now a supervisor of a school cafeteria where she earns $11,000 annually. Currently, she is also working towards her GED. Within the last two years, Michelle successfully completed self-sufficiency classes offered by the North Little Rock Housing Authority, and was among the first of many low-income home buyers to seek assistance from Argenta CDC. She completed home buyer counseling classes.

To help make Michelle's dream of homeownership a reality, $27,200 in HOME funds helped finance construction and her mortgage. The Argenta CDC Board approved the application for HOME funds in recognition of Michelle Martin's remarkable "Welfare to Work" life story. Other financial partners include First Commercial Bank and Metropolitan Bank which provided a line of credit for contractors. The Community Development Agency of the City of North Little Rock and ARKLA, the local gas company, provided a grant for gas street lamps for all of the Argenta rehabilitated homes.

With help from the HOME program, Michelle was able to purchase her home and is now one of nineteen home owners residing in Argenta CDC-assisted homes. She lives with her three children and one grandchild. When asked about her new home, Michelle states, "It is everything I always desired, more comfortable than any place I have ever lived. I thank Argenta CDC for helping me make my dream of owning my own home come true.

NEWARK HOME PROJECT

*Project Name.*—St. James CDC, Phase II Rentals
*Project Address.*—134–148 Broad Street, Newark, New Jersey
*CDC Sponsor(s).*—St. James CDC
*Number of Units.*—30
*HOME Funds.*—$500,000
*Total Project Costs.*—$3,402,913

The St. James community is known as a neighborhood with garbage and debris strewn vacant land, blatant drug dealing and businesses. Located in the lower Broadway prostitution, and abandoned neighborhood section of Newark's North Ward, St. James is lacking retail services and public parks and playgrounds are scarce. Supermarkets or pharmacies are absent while highly priced mini-markets serve as substitutes through-out the area. Renters outnumber homeowners by a ratio of 4 to 1. About half of St. James' residents are housed in properties built before World War II, while very little new housing stock exists.

With a 90 percent minority population, the St. James neighborhood is rated the third poorest section in the City of Newark. Over 41 percent of all families in St. James live below the poverty level in contrast with 23 percent of families city-wide. Renters regularly pay more than half of their household income for shelter.

St. James Community Development Corporation, incorporated in 1992, was originally established as St. James Square Housing Corporation in 1989. It was responsible for planning the St. James Square housing project in conjunction with the Episcopal Diocese of Newark. St. James CDC's mission is to provide a vehicle for neighborhood-based efforts to affect systemic change in the community's physical and social well-being.

While serving as sponsor for affordable housing and other community development projects, St. James CDC also builds partnerships with other organizations to meet identified community needs. Recently, St. James Community Development Corporation and La Casa de Don Pedro, a neighboring CDC, agreed to jointly undertake a comprehensive community revitalization process. The goal of this collaboration is to transform the Broadway section of North Newark into a dynamic and via-

ble community. The collaborative effort will oversee the construction of 150–200 additional units of affordable housing, strengthen and develop the local economy, and stimulate the social fabric of the community through the provision of social services. Phase II, a historic restoration project, was St. James' second housing venture. The nine historic limestone and brownstone townhouses, dating back to 1893, were recently placed on the National Register of Historic Places by the Department of the Interior. They are unique Italian-influenced, Renaissance Revival rowhouses, three stories high with an elevated basement. They were renovated to retain their original look by utilizing the authentic woodwork and moldings.

The project will house 30 families in 1 four-bedroom, 24 two-bedroom, and five three-bedroom apartments. Six units were reserved for recently homeless families. All of the apartments are rented by families at or below 50 percent of area median income.

Funding for Phase II included $500,000 in HOME funds, grants from the State Department of Community Affairs Balanced Housing Program and contributions from the Episcopal Diocese of Newark. The National Equity Fund raised $449,000 in equity through Low Income Housing Tax Credits. Other partners included Thrift Institutions Community Investment Corporation of New Jersey, and the Federal Home Loan Bank of New York's Affordable Housing Program.

As stated by Mayor Sharpe James, "Newark, the third oldest major City in America after New York and Boston, is a leader in urban renewal. We see a rebirth for Newark's neighborhoods in preserving these magnificent historic properties." The restoration of the limestone rowhouses signifies the completion of a neighborhood revitalization plan by St. James CDC to rebuild the community's affordable housing base.

HOUSTON CDBG PROJECT

*Project Name.*—Heritage Homes—Phase I
*Project Address.*—5th Ward Community, Scattered Sites, Houston, Texas
*CDC Sponsor(s).*—Fifth Ward Community Redevelopment Corporation
*CDBG Funds.*—$450,000
*Total Project Costs.*—$2,250,000

The 5th Ward has the lowest income in the city with sixty-two percent of the residents living below the poverty line. Houston's 5th Ward Community Redevelopment Corporation (CRC) was organized in 1989 by 5th Ward residents, business owners, ministers, educators and civic leaders to be a catalyst for rebuilding a healthy community through housing and business development, neighborhood safety and beautification. The CRC has either built or rehabilitated over 100 affordable for-sale homes for low-income families in the community. Some of the CRC's accomplishments include the rehabilitation of two historic homes, the creation of a chamber of commerce for neighborhood businesses, and neighborhood safety-related improvements. In the near future, CRC plans to develop a day care center, a mixed commercial and residential project, and affordable rental housing units.

Heritage Homes I is the first phase of a multi-phase project to develop 150 affordable single family homes for the 5th Ward neighborhood. The project includes homes that range in size from 2 to 4 bedrooms with up to 1,700 square feet of living space, constructed on scattered sites in the northeast corner of Houston's Central Business District. The project will be developed over the next three years. Heritage Homes is giving 30 families the chance to purchase newly built single family homes. Phase II is scheduled to produce forty more homes in 1997. Administered by the City of Houston, a Community Development Block Grant (CDBG) grant of $450,000 was used to write down loans, pre-pay development costs, and finance closing costs for homebuyers. Private partners such as Bank United assisted with permanent financing. The project represented the first affordable for-sale housing units built in Houston's inner-city in years. Homeownership opportunities are finally a reality for 5th Ward families desiring quality affordable housing.

Since its development, Heritage Homes I has not only increased home ownership but also made a significant contribution to improving the 5th Ward housing stock. Moreover, community residents observed how Heritage Homes I became a catalyst for additional development and investment in the community. Now several private developers are interested in developing and investing in the area due to its close proximity to downtown Houston. One such example is Texas Commercial Bank, which in its new location, will be the first financial institution in the 5th Ward community in over 30 years. The 5th Ward community has also recently welcomed a Walgreens drug store and a retail commercial business.

HOUSTON HOME PROJECT

*Project Name.*—Plaza de Magnolia Apts.
*Project Address.*—7310 Sherman, Houston, Texas
*CDC Sponsor(s).*—Association for the Advancement of Mexican Americans CDC (AAMA CDC)
*Number of Units.*—84
*HOME Funds.*—$420,000
*Total Project Costs.*—$4,542,000

The East End neighborhood of Houston is predominately Hispanic, and is comprised of approximately 85,000 residents, many of whom are Latin-American immigrants. This community has experienced many years of disinvestment and neglect during which the housing stock deteriorated and dozens of apartments were lost to demolition. It is estimated that there is a need for at least 10,000 units of affordable family housing in the East End neighborhood. For the first time in more than 30 years new affordable homes were developed in a project called Plaza de Magnolia Apartments.

Sponsored by the CDC affiliate of the Association for the Advancement of Mexican Americans, Plaza de Magnolia was developed by one of the largest Hispanic non-profit social service agencies in Texas. AAMA has provided educational and social services to the East End community for 25 years. The CDC is a non-profit, tax-exempt organization, established to encourage the development of affordable housing opportunities and other projects to meet the East End's community development needs.

Plaza de Magnolia Apartments has 84 new rental units ranging from one- to three-bedrooms for individuals and families. Rents, ranging from $375 to $525 per month, are affordable to the tenants whose incomes range up to $19,800 for individuals and up to $32,000 for a family of four. Partners in the project include Homes for Houston Organization, a city-sponsored non-profit corporation that serves as a clearinghouse of affordable housing information for Houston's residents. Project financing includes $2,435,000 in equity raised using Low-Income Housing Tax Credits provided by LISC's National Equity Fund, and a first mortgage of $1,688,000 from the Bank of United Texas. Administered through the City of Houston, federal HOME funds provided $420,000 in gap financing of the $4,542,000 total development costs.

Plaza de Magnolia Apartments is providing safe, decent, and affordable housing opportunities and is stimulating private investment in the neighborhood—breathing new life into a once dying community.

SAN DIEGO HOME PROJECT

*Project Name.*—Mercado Apartments
*Project Address.*— 2001 Newton Avenue, San Diego, California
*CDC Sponsor(s).*—Metropolitan Area Advisory Committee on Anti-Poverty of San Diego County, Inc. (MAAC Project)
*Number of Units.*—144
*HOME Funds.*—$758,600
*Total Project Costs.*—$12,377,000

For six years, Sonia Rodriquez and her three children shared a two-bedroom apartment with her sister, Sandra Le, her brother-in-law and their three children in the Barrio Logan Community. Sonia and her children slept in one bedroom while Sandra, her husband and children slept in the other. Sonia, 34, recalls, "When my children Fabian, 12, Laiza, 10 and Vicki, 5, were small, it (their living conditions) was O.K. and we dealt with it, but as they were growing up their needs for their privacy grew, especially for Fabian, my son." So when Sonia's application was accepted for a new three-bedroom, two bath apartment at the Mercado Apartments, she was very excited. "When my family and I moved into our apartment, it was like we won the lottery!" she exclaimed.

Developed on an industrial lot once owned by a utility company, Mercado Apartments is a 144 unit family rental development located adjacent to Chicano Park, across the San Diego Bay from Coronado. The development created 144 family apartments including 18 one-bedroom, 60 two-bedroom, and 66 three-bedroom family dwellings

All of the apartments are affordable to families who earn 60 percent or less than the area median, or $27,000 for a family of four. Residents of Mercado Apartments use on-site social services such as a Head Start daycare facility and job placement program. While Chicano Park has been a symbol of Latino activism and cultural pride since 1970, Mercado Apartments represents a symbol of renewed community

spirit and revitalization as the first major residential development in Barrio Logan in more than 50 years.

The nonprofit sponsor and co-developer of Mercado Apartments is the Metropolitan Area Advisory Committee, also known as the MAAC Project. The MAAC Project has been serving low-income people of San Diego County since 1965. It is dedicated to building mixed-income, multi-ethnic, service-enhanced and self-sufficient communities in San Diego County. The MAAC Project combines its community base with professional services to the Latino community, such as alcohol and drug recovery counseling. For the past 17 years, an ongoing public/private partnership effort has existed between the MAAC Project and neighborhood residents, the City of San Diego, and the financial community to improve the living and working conditions of the Barrio Logan population. The MAAC Project has also developed ten homes for first-time home buyers, and is currently developing both Boston Gardens, a housing facility for persons living with HIV-AIDS, and a retail center.

A financing collaborative for Mercado Apartments was made possible with nearly $760,000 in HOME funds through the San Diego Housing Trust Fund, and about $3 million dollars in low-interest loans from the City of San Diego Redevelopment Agency. Almost $5 million in equity was raised by the California Equity Fund and a grant of $800,000 was provided by the Affordable Housing Program.

The Mercado Apartments is seen as a focal point for future redevelopment activities in the Barrio Logan community. The development not only attracted current residents like Ms. Rodriquez, but has made it possible for former residents to return to the neighborhood. This renewed interest reverses the trend of neglect, abandonment, disinvestment and out-migration. In addition, other new developments are springing-up. One example is an ambitious plan for a future 100,000 square foot project called the Mercado Commercial Center. The center will be adjacent to the apartment complex and plans to include a major supermarket, retail shops, and a neighborhood theater.

"Slowly but surely, nonprofits and government agencies are joining hands to complete these projects and reclaim hope in this beleaguered community", says Rich Juarez, director of the MAAC Project.

Several local and national awards have recognized the MAAC Project's efforts to create affordable housing. Mercado Apartments won Honorable Mention from the Affordable Housing Tax Credit Coalition's 1995 Excellence Award competition and was an alternate in the Fannie Mae Foundation's Maxwell Award competition. The project was also the Nonprofit Federation for Housing and Community Development Project of the Year for 1994 and won the San Diego Housing Commission Community Partners Award.

The greatest reward, however, is the sense of renewed hope and neighborhood pride for Ms. Rodriquez and the 560 Mercado Apartment residents. At the apartments, Sonia is very busy with tenant activities. She works and volunteers at the nearby Perkins Elementary School attended by her two oldest children. She bakes cupcakes for the Friday night movies, and helps with yard sales, holiday parties and potlucks. She also attends parenting classes sponsored by the San Diego Urban League. Getting involved has become a family affair for Sonia and her sister. Sonia was recently elected Vice-President of the Mercado Apartments Tenant Association while Sandra Le was chosen as Treasurer.

The town-like, family-oriented atmosphere is enhanced by the security Sonia's family feels as Mercado Apartment residents. "When my friends come from outside to the apartments", she says, "they are always comfortable, and you feel very proud to live here."

CLEVELAND HOME AND CDBG PROJECT

*Project Name.*—Willow Rose Homes

*Project Address.*—Scattered Sites in Glenville and Forest Hills Cleveland, Ohio

*CDC Sponsor(s).*—Northeastern Neighborhood Development Corporation and Lutheran Housing Corporation

*Number of Units.*—56

*HOME Funds.*—$200,000

*CDBG Funds.*—$300,000

*Total Project Costs.*—$5,400,000

The Willow Rose project was co-developed by two community development corporations (CDC's): the Northeastern Neighborhood Development Corporation (NNDC) and the Lutheran Housing Corporation (LHC).

NNDC serves the residents of Ward 9, which includes the Forest Hills, Glenville and South Collinwood neighborhoods in Cleveland. Founded in 1994, NNDC's mission is to improve the community through organizing, code enforcement, home re-

pair, housing rehabilitation, construction and commercial development. Since 1994, NNDC has completed 56 units of housing and has constructed 46 new homes. With the support of Congressman Louis Stokes, NNDC recently completed an ambitious planning effort for Lakeview Ave., the major commercial artery for the neighborhood, which will create significant residential and commercial development.

LHC was founded in 1973 as an initiative of the Lutheran Metropolitan Ministries to assist low and moderate income families obtain and maintain quality affordable housing. Currently they provide housing counseling, energy conservation, elderly home repair, furnace repair and a tool loan program. In addition, LHC is implementing a long-term comprehensive housing program in East Cleveland. Their current projects include renovating and selling existing homes, repairing occupied homes and providing pre-purchase and foreclosure prevention counseling. LHC's other major programs include involvement in a county-wide program to renovate and sell vacant HUD houses, and to act as co-developer with emerging CDC's involved in both homeownership and housing credit projects throughout Cleveland.

Willow Rose is one of the most well-known and successful collaborations between NNDC and LHC. Named for Cleveland's City Councilmen Craig E. Willis and Roosevelt Coats, from Wards 9 and 10 respectively, Willow Rose is 56 new and rehabilitated single-family homes scattered among various sites within the Glenville/Forest Hills neighborhoods. Forty-six of the homes provide affordable rental housing to families with an option to purchase after 15 years. The remaining 10 new homes were sold to families at market rate ($90,000–$100,000) with a deferred second mortgage provided by the City of Cleveland.

Financing for the 46 leased homes includes a combination of $200,000 in HOME funds from the State of Ohio, $3,105,000 in Low Income Housing Tax Credit equity, and $300,000 in CDBG support from the City of Cleveland. These homes are being leased to families making approximately $25,000 annually.

The strategic reinvestment of $5,400,000 back into the community not only offers quality and affordable housing to residents, but it has further strengthened the housing market for the whole community. The sale of the new homes for $90,000—$100,000 demonstrates that the market is rebounding and that people want to come back to Cleveland's neighborhoods.

All homes have a full basement and attached garage. Standard amenities include laundry rooms, central air conditioning, dishwashers and large landscaped lots. Many of the homes have vaulted ceilings. New homeowners also enjoy the option to select upgrades like fireplaces or bay windows to personalize their homes to reflect their own tastes and needs. NNDC continues to provide training to families on how to maintain their homes, upgrade their landscaping and annually they have Christmas and Halloween parties for the families.

Very little marketing was necessary since news of the project spread quickly by word of mouth, reaching one former Glenville resident named Crystal Washington. Before returning to Glenville, Crystal lived in a tiny two-bedroom apartment in Euclid, a suburban community of Cleveland with her two daughters. Her former home had no yard. As a single mother expecting a third child, Crystal paid more for renting the apartment than the monthly lease payment for a Willow Rose home.

Today at Willow Rose, Crystal lives in a 1,350 square foot, three-bedroom house with her three daughters. There is a large yard with plenty of room for the children to play. An avid gardener who likes to work with flowers, Crystal is known to have one of the best-looking backyards in the neighborhood! Before moving in, Crystal and all other new Willow Rose residents participated in orientation and maintenance workshops to learn the basics of upkeep of a house, developing them into "perfect homeownership material".

Currently, all of the homes are fully occupied. The lease-purchase program of Willow Rose Homes has had a major impact on the Glenville/Forest Hills community. The attractive family homes gave families like Crystal's an affordable opportunity for homeownership, a more stable environment for their children, and instilled in them a sense of neighborhood pride. By giving it a new face-lift to create stability for its residents, Willow Rose Homes has encouraged additional investment in the Glenville/Forest Hills neighborhood.

---

PREPARED STATEMENT OF HENRY M. CAGEY, CHAIRMAN, LUMMI INDIAN NATION

The Lummi Nation supports the Native American Housing Assistance And Self-Determination Act Of 1996 (NAHASDA). The Lummi Nation was one of the Tribal governments which entered into discussions with the HUD Office of Native American Programs to support their administrative de-regulation and the legislation to create the Block Grant Program. The Lummi Nation views the development of the

Housing Block Grant Program as an integral part of our overall goal of Self-Governance within the American family of governments.

This act enables Tribal governments to develop and implement a comprehensive plan consistent with actual Tribal housing needs and resources to meet local housing needs, which was not previously available. The need for a new approach is obvious. After over 30 years of working with the HUD Indian housing program the members of the Lummi Nation continue to suffer from the lack of safe, affordable and standard housing. Approximately 40 percent (2,200 people) of all Lummi Nation members are either homeless or housed in substandard housing or housing which cost more than 30 percent of their monthly income.

THE ADMINISTRATION'S BUDGET PROPOSAL FOR FISCAL YEAR 1998

The Administration's budget proposal for HUD reflects the President's commitment to balance the federal budget by 2002. As a result, the Administration proposes allocations for the next five years. The proposed budget recognizes NAHASDA and combines several categorical grants for Indian housing into one block grant. It proposes $485 million for fiscal year 1998, and for each of the following four years. The proposed budget also allocates $3 million for the Indian Housing Loan Guarantee program (Section 184) which will leverage approximately $36 million per year through 2002.

Lummi Indian Nation 1998 appropriation requests: $148 million Funding for Tribal Planning and Implementation; $850 million for Basic Affordable Housing Activities; $32 million Funding to Support our Access to Private Financial Resources; and $6 million Section 184 Loan Guarantee Program.

*$148 million funding for tribal planning and implementation*

Tribes and Tribal Housing Programs need adequate dollars for additional implementation costs now necessary to carry out the block grant. The NAIHC estimates that tribes and Tribal Housing Programs need $148 million to plan, manage and administer the grants as well as to undertake the environmental reviews that are now their responsibility. Funds are also needed for planning and technical assistance to further prepare Tribal Housing Programs and tribes for NAHASDA. Some tribes lack the capability to adequately manage and oversee their housing programs. Insufficient funding only compounds this problem.

*$850 million for basic affordable housing activities*

Mr. Chairman, the Administration's budget proposal for Indian housing falls far short of our need. The National Indian Housing Council (NAIHC), estimates that approximately $850 million will be needed to address the current housing need in each of the next five years. This is significantly more than the amount proposed by the Administration, which is ultimately a compounded cut, due to inflation, for each year after fiscal year 1998. Each year inflation will eat at our precious dollars and each year their value will dwindle.

With the passage of NAHASDA, NAIHC estimates that approximately 30 more tribes can participate. These are, in large part, federally recognized tribes that have not previously participated in the housing program and new federally recognized tribes that are now eligible. The program is already seriously under-funded given current housing needs, provides no increase for inflation, nor does it account for new participants who are now eligible.

*$32 million funding to support our access to private financial resources*

The Administration has provided no funding for the Loan Guarantee Program known as Section 601. The Lummi Nation is extremely disappointed that the Administration has failed to fund Section 601. We hope that this does not signal their abandonment of this mechanism to enable Tribal governments to access private financial resources. With zero funding until 2002, millions of private dollars will escape our reaches while we scramble to stretch declining federal housing dollars. Indian Country must wait, in spite of the acute human need, while the federal government solves its fiscal problems.

NAHASDA will allow us to meet current needs by guaranteeing, to private lenders, future financial resources. The Act provides for a Loan Guarantee program (Section 601), similar to the Community Development Loan Guarantee (Section 108) used in the rest of America. Section 601 will allow us to guarantee future dollars, using private lenders, to finance housing projects that we can begin building now. The leveraged amount could be as much as $400 million. Section 601 is essential for Indian reservations and Native communities in an era of declining federal housing dollars. It is an indispensable tool that will help us move private financing into our communities where few private lenders dare to venture. Mr. Chairman and

Members of this Committee, without this option Indian people will remain solely dependent on decreasing federal dollars for which there are countless competing forces.

The Lummi Nation supports the NAIHC estimate that the Loan Guarantee Program needs about $32 million in credit subsidy. This small investment could potentially leverage twelve times more in private housing funding, or $400 million. It seems a minor amount in comparison to the huge contribution it will bring to our impoverished Native American communities.

*$6 million section 184 Loan Guarantee Program*

Mr. Chairman, the Lummi Nation supports the NAIHC request of $6 million for the Indian Housing Loan Guarantee Program (Section 184). Congress created this program in 1992 and appropriated its first $3 million in fiscal year 1993. This funding however, has not changed since 1993. The Section 184 program is well-received and well-known in Indian country. Each year appropriations for Section 184 are used, and demand is growing. HUD expects to commit its fiscal year 1997 Section 184 appropriation months before the September 30 deadline.

LUMMI INDIAN NATION HOUSING NEEDS

*Current housing needs*.—Overall housing need—893 families (nearly 2,200 people).

*Rate of increasing need*.—The need for housing is increasing at the rate of 55 units per year based on the annual birth rate of 112 per and the rate of household formation.

*Cost of current backlog*.—At an average cost of $80,750/per housing unit the total costs to meet the existing backlogged housing needs of the Lummi Indian Nation would be $66 million.

*Infrastructure needs*.—Infrastructure development including access roads, water lines and sewer lines and pump stations needed to support the housing need would cost an additional $22 million.

*Impact of welfare reform*.—The impact of welfare reform on members of the Lummi Indian Nation is anticipated to be severe. We anticipate that those persons currently on our Housing waiting list will be the most severely impacted. These families are now facing substandard housing and a rental market which prices them on the outside looking in on the prosperity of the mainstream American economy. The current prosperity of America is still a dream for most residents of our Reservation. There is no booming local economy waiting to absorb low skilled and in many cases workers without even basic communications skills of reading and writing. With nearly 1,000 families dependent on income transfer programs housing will be a major issue in their transition from dependency to prosperity.

The Administration proposes programs that housing authorities will be able to use for creating jobs, linking welfare recipients to jobs, and leveraging funds to increase job opportunities. Who pays the rent when welfare payments stop? How will tribes and Tribal Housing Programs make up the difference? Members of this Committee, you must understand that welfare reform will hit us very hard. The Administration's budget has not factored the impact of welfare reform into its request for the Indian housing block grant.

*Violence in cluster housing sites*.—Over the past five years the Lummi Nation has documented an increase in youth violence on the Reservation and particularly in housing cluster sites, which are modeled after large public housing developments in urban areas. The divorce of Public and Indian Housing provided by NAHASDA will enable Tribes to design housing cluster sites which support family relationships as legitimate sources of behavioral control.

*Davis Bacon Act requirements*.—We recognize the efforts of the Committee to relieve us of the burden of complying with the requirements of the Davis Bacon Act. Unfortunately, these requirements remain in NAHASDA despite our repeated attempts to remove them. Davis Bacon does not have the positive benefits to workers that its proponents are seeking on our Reservation. The administrative burden imposed by Davis Bacon increases our costs and does not translate into better wages. We request that these requirements be waived for Reservation areas and be maintained in areas where there are demonstrated benefits.

*Thirty percent of income rule*.—While we appreciate that the statute provides for rental caps for families who are trying to earn funds to move out of subsidized rental units it does not allow sufficient flexibility to work with families with little or no income. These families comprise the majority of families who occupy our rental units. Thirty percent of zero is zero. We are requesting approval of a sliding scale approach to rent rates. This will enable us to set reasonable rents based on the local market, which recognize the ability of even the poorest among us to live with dignity by contributing to the extent that they can to their own support.

LUMMI INDIAN NATION SUCCESSES

*Lummi Nation addresses its own housing needs.*—Over the last 4 years Lummi Nation Housing Authority has been re-organized to incorporate it into the management structure of Lummi Nation Government. Now known as Lummi Nation Housing Program, this program has revised its housing development, management and transition policies and procedures. A new housing ordinance has been developed which authorizes the Tribal Council to address a wide range of housing needs through its housing, social, health, educational and credit programs.

*Lummi Nation accomplishments.*—Over the last 4 years Lummi Nation Housing Authority has constructed 160 new units of housing and renovated another 60 units of existing housing. The Lummi Nation is also one of the very few Tribal governments which has been awarded a HOPE I Grant. This grant is being used to fund the conversions of 50 existing rental units into homeownership units to be purchased by the current renters. HOPE I funds are also providing an expansion in the child care facilities available to housing residents.

Also, during the past four years the Lummi Nation has been one of the most active in the process of developing financial connections with the local private housing financing.

*Section 248 Leasehold Mortgages.*—The Lummi Indian Nation was one of the first to develop the ordinances and procedures needed to enable Tribal members to finance their homes on reservation trust lands through the Section 248 Program.

*VA Home Loan Program.*—The Lummi Nation was the second Tribal government to receive approval for its Memorandum of Understanding with the Veterans Administration to enable its Veterans and their families to participate in the VA Home Loan Program.

*HUD Section 184 Loan Guarantee Program.*—The Lummi Nation is also one of the leaders in the use of the Section 184 HUD Loan Guarantee Program.

*Lummi Nation Mortgage Company and Credit Union.*—The Lummi Nation is currently developing on reservation private credit resources, which include a mortgage financing company and a credit union.

CONCLUSION

Fiscal year 1998 is NAHASDA's first year! A poorly funded program undermines the historic reform and great promises of NAHASDA. Success breeds success. If we are successful in informing you of our true financial needs and if we are all successful in securing the level of funding we know is needed; then NAHASDA will be a success for Indian people. If the funding is not adequate and we cannot even fund our basic operations, then we cannot implement these plans. Our people cannot live in our plans; promises provide no shelter from the bitter cold and the grand designs we have supported through NAHASDA will provide little more than more of the same. Our people need a stable base from which to launch their escape from poverty to a future of prosperity. They need housing. Housing on a scale that dwarfs the current effort. Otherwise, Tribes and Tribal Housing Programs will begin to question the foundation, meaning, and purpose of NAHASDA. Our intentions as leaders will be doubted.

Mr. Chairman, I know that you are a supporter of NAHASDA. Our members are grateful for the changes it will bring. I am sure, however, that we always knew that without adequate appropriations, our struggle to house Indian people would fail. A new program that is under-funded—with funding levels that fail to account literally decades of neglect or the impact of welfare reform—will be a program that has great potential, yet ultimately fails to enable Native Americans an opportunity to achieve goals that other Americans take for granted.

I strongly urge the Committee to reconsider the Administration's budget proposal and consider the requests of the National Indian Housing Council and the Lummi Indian Nation.

Thank you.

---

PREPARED STATEMENT OF MERLE BOYD, ACTING PRINCIPAL CHIEF, SAC AND FOX NATION

Chairman Bond and distinguished Members of the Committee, on behalf of the Sac and Fox Nation, I thank you for this opportunity to present the position of the Sac and Fox Nation regarding the fiscal year 1998 appropriations for the Department of Housing and Urban Development, Public and Indian Housing programs. And, to submit for the record, our support for this Committee's efforts and those

of the Administration towards the implementation of the Native American Housing Assistance and Self-Determination Act of 1996.

APPROPRIATION NEEDS

The Sac and Fox Nation asks that consideration be given to the following fiscal year 1998 appropriation requests for the Department of Housing and Urban Development:

—Increase Indian Housing block grant to $850 million;
—Provide $32 million to implement Section 601—Loan Guarantee Program;
—Provide $6 million for the Section 184 Indian Housing Loan Guarantee Program; and,
—Earmark $148 million to new and existing Tribal Designated Housing Entities (TDHE's) planning and to complete studies to implement the Comprehensive Housing Plans (CHP's), and conduct environmental reviews.

BACKGROUND AND HOUSING NEEDS

After thirty years of service to the low-income Indian population within the Sac and Fox Nation's jurisdiction, we continue to move forward to meet the housing needs of Indian people. In 1993, the Sac and Fox Nation was the first Tribe in Oklahoma to remove itself from State control by establishing a housing authority under the sole jurisdiction of the Tribe. We have managed our own housing programs quite well under this structure and welcome HUD representatives to review and monitoring our operations. The principles of the Native American Housing Assistance and Self-Determination Act of 1996, are consistent with our Tribes efforts to self-govern our Indian population and to work diligently towards meeting the serious shortfall of providing safe and standard housing. We are actively administering 325 mutual help homes and 44 low rent units with an additional 30 low rent units underway. These housing developments make a small dent in our overwhelming housing needs. There are 500 applicants on the waiting list for mutual help homes and over 100 applicants seeking low rent housing units. This listing of applicants awaiting housing assistance serves as a constant reminder of the level of appropriations for housing in comparison to the identified local housing needs.

NARRATIVE JUSTIFICATION ON REQUESTS

*Increase Indian Housing block grant to $850 million*

Based on current housing needs for Indian country, the Administration's proposal for $485 million falls significantly short of the Nation's Native American housing needs. While realizing that Congress must remain conscientious about reducing the budget deficit, the acute housing needs for impoverished Indians cannot be ignored. $850 million annually, is needed to address the housing needs of Indian country under a five year budget plan, which also considers inflationary factors.

*Provide $32 million to implement Section 601—Loan Guarantee Program*

The Native American Housing Assistance and Self-Determination Act authorized Section 601—Loan Guarantee Program. However, the Administration has provided zero funding for implementation through 2002. While the rest of America is ably administering a similar program under Section 108 Community Development Loan Guarantee, Indian country will be unable to venture into private financing in an effort to leverage other dollars to stretch the ever-shrinking federal dollar made available for housing assistance.

*Provide $6 million for a Indian Housing Loan Guarantee Program*

This highly popular program was created by Congress in 1992 in which Section 184 funding was appropriated in the amount of $3 million for Indian country. Demand for this type of service continues; whereas, appropriations have been flat-lined for the past five years. An additional $3 million is requested to meet current demand.

*Earmark $148 million for new and existing Tribal Designated Housing Entities (TDHE's) planning, complete studies, and conduct environmental reviews*

The implementation of the new Act requires the development of Comprehensive Housing Plans (CHP's). In order for our TDHE to update its current needs, complete accurate assessments of future housing construction needs, enhance administration capability and accept primacy over environmental studies, assessments and clearances, additional funding is needed to transition to this new way of carrying out our respective housing responsibilities. A comprehensive housing plan requires com-

prehensive planning which cannot not be adequately carried out without funding to support the tasks at hand.

NATIVE AMERICAN HOUSING ASSISTANCE AND SELF-DETERMINATION ACT

The enactment of the Native American Housing Assistance and Self-Determination Act of 1996 was a historic event which brought forth renewed optimism to Tribes throughout Indian country for a housing program which has struggled to meet the dire needs of impoverished Indian households. We bring to this Committee's attention, areas of the Act which require clarification, and in some instances additional appropriation needs to fulfill Congress' intent and purpose.

*Implementation Time Lines*

The time allotted for TDHE's to implement the act is insufficient. Additional time and appropriations (as cited above) are needed to implement a comprehensive housing plan. Implementation of the Act should be consistent with fiscal year time lines, beginning on October 1, 1997.

*Davis Bacon Act*

As with HUD Indian Community Development Block Grant construction grants of years past, Davis Bacon requirements should not be mandatory for Indian country. While the Sac and Fox Nation does not want to lessen the value of qualified construction workers, the prevailing wages of the area should be the focal point for determining actual wages for skilled workers. A waiver of Davis Bacon should be an option to each TDHE to self-determine appropriate construction wages for a Tribal reservation and/or service area.

*Multi-Tribe Designated Housing Entity*

While separate plan certifications are required for each Tribe under a Multi-Tribal Designated Housing Entity, the Act is not clear as to whether separate accounting mechanisms will also be required. The Sac and Fox Nation believes that such a process can become convoluted if complete segregation is required in all areas of administering housing assistance for more than one Tribe. In-fact, it defeats the purpose of a multi-service entity and subsequently requires more funding to support such an umbrella operation.

*Carryover and Lump Sum Funding*

The Administration's five year proposal allows for the Congress and Administration to better plan future budgetary needs. Tribe's equally share in the process of streamlining their operations and to invoke savings wherever possible. Multi-Year budgetary planning is a positive tool for future housing planning needs. However, the Act is not clear as to the true status of proposed carryover funds for TDHE's. The Sac and Fox Nation believes that savings should be a priority for a TDHE. Thus, carryover funding can be representative of astute fiscal management. The TDHE should be able to retain any carryover funding and have full authority to determine where incurred savings can best be applied in future year funding cycles, based upon clearly defined priorities established by a TDHE. Additionally, lump sum funding is the appropriate manner in which funding should be allocated instead of our current "as needed" basis. As a Tribe which has been participating in "Self-Governance" with the U. S. Department of Interior and the Indian Health Service, such a funding mechanism has been instrumental in serving our population needs. Our cognizance of our fiduciary responsibilities have resulted in sound management practices and the investment of the federal dollars allocated at the beginning of a fiscal year, have afforded us the opportunity to stretch limited dollars and to provide additional services to our membership. We support local discretion and flexibility for carryover funding as well as lump sum funding of TDHE allocations.

*Section (8) Housing*

The Sac and Fox Nation, along with all Tribes in Oklahoma as well as the Native Villages of Alaska, have endured long-term discrimination of our housing needs over the past thirty years. Because of our unique land status in Oklahoma and Alaska, the past funding allocation formula has been prejudicial towards our identified needs. A Tribe's land base status is irrelevant in determining the level of housing need. Funding determinations should be based upon the needy population to be served within the area served by a TDHE. The funding allocation formula that is currently being developed under the negotiated rulemaking process must correct this long-standing deficiency in assessing Oklahoma Tribes and Native Alaskan's housing funding needs. The estimated impact to Oklahoma under Section (8) is $10 million. We can no longer expect to be accepting of such a biased allocation methodology.

In closing, we thank the Committee for your dedication and commitment in the passage of this important Act and for this opportunity to present our written remarks for the record. I am available to the Members of this Committee at your convenience to provide any further response to our statement.

Thank you.

---

LETTER FROM CONGRESSMEN KENNEDY AND LAZIO

*March 12, 1997.*

House of Representatives,
*Committee on Banking and Financial Services,*
*Washington, DC, March 12, 1997.*

DEAR COLLEAGUE: We are writing to invite you and your staff to a briefing sponsored by a host of local government and national non-profits that will highlight the importance of the Community Development Block Grant (CDBG) and Home Investment Partnership (HOME) programs. The event will take place on Thursday, March 20, from 8:30 until 9:30 in Room 2222 Rayburn HOB.

Hear first hand from local elected officials, community leaders, and representatives of non-profit organizations about how these two programs improve communities across this nation. It is critical that support for these two programs be sustained as states, localities and community-based organizations rely upon CDBG and HOME to undertake broad, long-term revitalization efforts.

In many communities, CDBG is the "glue" that holds revitalization efforts together. It is a proven component of state and local government housing and community development efforts. The unique nature of the program provides flexibility so that urban, suburban, and rural communities may tailor CDBG assisted projects to their development needs. CDBG addresses deterioration, increases affordable housing, and leverages private investment dollars.

The HOME Investment Partnership program serves as federal partnership with state and local governments with private for-profit and non-profit organizations. HOME provides these partners with the ability to address local affordable housing needs, such as rental housing development and tenant based assistance programs. The HOME program has catalyzed local support for affordable housing.

This event is scheduled immediately prior to the celebration of Community Development Week, an annual week-long campaign designed to focus local and national attention on the outstanding accomplishments of the CDBG program, funded through the U.S. Department of Housing and Urban Development.

JOE KENNEDY,
*Ranking Member.*

RICK LAZIO,
*Chairman, Subcommittee on Housing and Community Opportunity.*

---

WHY THE COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) PROGRAM AND THE HOME INVESTMENT PARTNERSHIP PROGRAM WORK

The CDBG and the HOME programs are working extremely well in communities across the country. State and local governments and their citizens are using these programs to build strong and equitable communities for the future. Both CDBG and HOME are the epitome of programs that enable Congress to fulfill its commitment to neighborhoods and communities. This commitment was best expressed in the Housing Act of 1949 that reads as follows: "The Congress hereby declares that the general welfare and security of the Nation, and the health and living standards of its people, require housing production and related community development sufficient to remedy the serious housing shortage, the elimination of substandard and other inadequate housing through the clearance of slums and blighted areas, and the realization as soon as feasible, of the goal of a decent home and a suitable living environment for every American family * * *"

CDBG and HOME work because they:

—Provide maximum flexibility to communities to design and implement programs to meet their unique affordable housing, community and economic development needs.

—Provide a stable funding source that enable jurisdictions to implement long-term and far-reaching revitalization strategies.

—Require and foster community participation in identifying community needs and targeting resources.

—Promote public/private partnerships. Both programs have leveraged substantial private investment for affordable housing, and community and economic development projects.
—Foster intergovernmental and multijurisdictional cooperation.

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

*Background*

The Community Development Block Grant (CDBG) Program, enacted in 1974, provides annual grants on a formula basis to entitled communities and states to carry out a wide range of community development activities. Congress appropriated $4.6 billion for CDBG in 1997, of which 70 percent is distributed directly to nearly 1,000 metropolitan cities and urban counties, and 30 percent to states for distribution to smaller communities based on state adopted priorities and selection systems.

Cities with populations over 50,000 and counties with populations over 200,000 receive annual entitlement grants. The amount of entitlement funds a state or local government receives is based on a dual formula that considers problems of growth and decline. Smaller cities and counties with populations of 50,000 or less are eligible to apply to their states for state administered non-entitlement CDBG funds.

All CDBG funded activities must meet at least one of three statutory objectives: (1) primarily benefit low-and moderate-income persons; (2) eliminate or prevent slums or blight; (3) meet other urgent local community development needs.

Since 1983, Congress has required that low- and moderate-income persons be the primary beneficiaries of the CDBG program. Consequently, over a one to three year period, each community must spend at least 70 percent of its CDBG funds on activities that principally benefit low- and moderate-income persons who are defined as persons at or below 80 percent of median income. In fiscal year 1993, the Department of Housing and Urban Development (HUD) calculated that 93.7 percent of the funds were expended on activities benefiting persons at 80 percent or below the median income.

Activities that can be carried out with these block grant funds include, but are not limited to: acquisition of real property; relocation and demolition; housing and nonresidential rehabilitation; construction of public facilities and improvements, such as water and sewer facilities, streets and neighborhood centers, and the conversion of schools for eligible purposes; homeownership assistance; public services (subject to a 15 percent cap) including job training, child care and housing counseling; and assistance to for-profit businesses to carry out job creation and other economic development activities.

In order to receive annual grants, jurisdictions must submit a Consolidated Plan—a planning and management tool that documents a jurisdiction's housing and community development needs and its strategy for addressing identified needs. Grantees also are required to develop and follow a detailed citizen participation plan which provides for and encourages citizen participation, with particular emphasis on persons of low- and moderate-income.

Nonprofit, low income community-based development corporations frequently use CDBG as a primary tool to help rebuild their neighborhoods and leverage private funds for locally based community development initiatives.

A companion to CDBG is the Section 108 loan guarantee program which is used by jurisdictions for large, primarily economic development projects. Communities may finance site acquisition and rehabilitation of publicly owned real property. These costs may be financed over an extended period of time with the jurisdiction pledging its current and future CDBG funds and other forms of security to guarantee the loan.

*Impact of CDBG*

The following statistics on the CDBG program are in HUD's most recent annual report to Congress. Due to data collection methods, this information primarily reflects 1993 data.

—Between fiscal year 1993 and fiscal year 1996 an estimated 14–17 million households benefited from the CDBG program.
—Approximately 114,799 jobs were created through economic development activities.
—Of the funds expended by entitlement communities in fiscal year 1993 the following percentages were used:

| | *Percent* |
|---|---|
| Preventing or eliminating slum and blight | 6.0 |
| Public works | 22.7 |
| Economic development | 6.0 |

| | *Percent* |
|---|---|
| Public services | 12.8 |
| Acquisition and clearance of property | 7.3 |
| Administration | 14.4 |
| Housing rehabilitation assisting over 200,000 households | 35.8 |

—For every 10 percent of CDBG funds expended for direct assistance to individuals and households (two-thirds of the CDBG funds), 1,093 million persons and households are affected, based on the fiscal year 1992 Grant Performance Report. (Since the remaining one-third of funds benefit entire neighborhoods, a per person benefit cannot be accurately calculated.)

*The Hidden Decline in CDBG Funding*

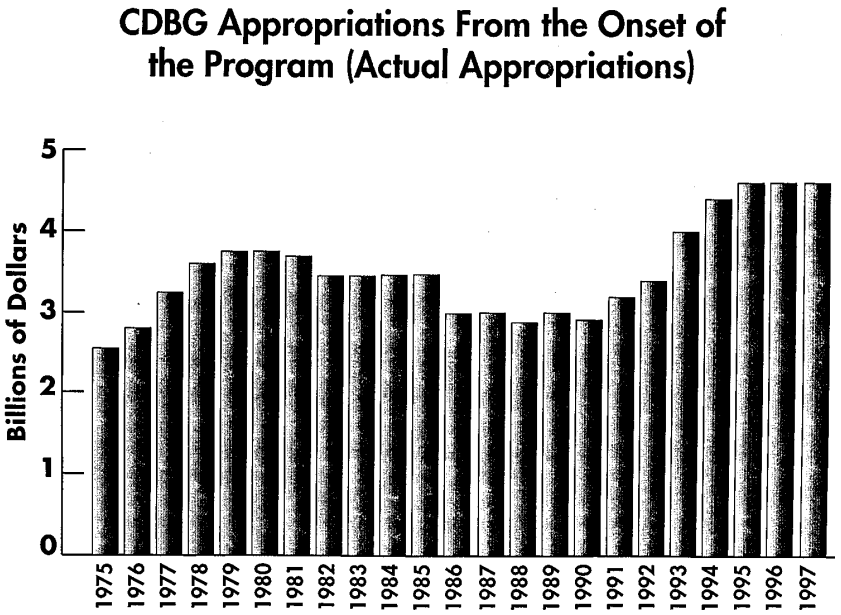
Although the CDBG program has received "level funding" of $4.6 billion since fiscal year 1995, the actual amount of funding for states and local governments has declined by four percent, while the number of participating communities has increased by three percent.

In fiscal year 1995, $4.6 billion in CDBG funds were allocated to 946 entitlement communities and 51 states and territories with approximately $90 million in designated set-asides. In fiscal year 1997, $4.6 billion in CDBG once again was allocated, but to 975 entitlement communities and 51 states and territories and with $289.6 million in designated set-asides.

| | Fiscal year | | |
|---|---|---|---|
| | 1995 | 1996 | 1997 |
| Number of entitlement communities | 946 | 955 | 975 |
| Overall program funding | $4,600,000,000 | $4,600,000,000 | $4,600,000,000 |
| Total amount of set-asides | $90,000,000 | $230,000,000 | $289,600,000 |
| Actual allocation to entitlements | $3,140,000,000 | $3,060,000,000 | $3,020,000,000 |

Even without considering inflation, this on-going trend towards more set-asides and increases in entitlement communities create a steady, yet hidden decline in actual CDBG funding to jurisdictions. For example:

| | Fiscal year | | | Loss | |
|---|---|---|---|---|---|
| | 1995 | 1996 | 1997 | Dollar | Percentage |
| Westchester County, NY: Actual allocations | $6,892,000 | $6,637,000 | $6,036,000 | $525,000 | 8 |
| East St. Louis, IL: Actual allocations | 2,710,000 | 2,611,000 | 2,550,000 | 160,000 | 6 |
| Cambridge, MA: Actual allocations | 4,203,000 | 3,939,000 | 3,852,000 | 351,000 | 8 |
| Los Angeles, CA: Actual allocations | 96,773,000 | 93,942,000 | 92,191,000 | 4,582,000 | 5 |




HOME INVESTMENT PARTNERSHIPS PROGRAM

*Background*

HOME, established by Congress in 1990, is an affordable housing block grant to states and over 500 localities and consortia of smaller jurisdictions. HOME funds are distributed according to a needs-based formula with 40 percent allocated to states and 60 percent to localities. HOME provides funds for housing rehabilitation, tenant-based rental assistance, assistance to homebuyers, and new construction. Funds may be used for site acquisition, site improvements, demolition and relocation. As partners in the program, states and localities are required to match a portion of federal funds with non-federal money. States and localities determine how their HOME funds will be spent through a comprehensive planning process which requires public participation. HOME projects in nonmetro and rural areas are generally funded through states. The fiscal year 1997 HOME appropriation is $1.4 billion, level with fiscal year 1996 funding.

HOME is flexible, responsive to local needs, fosters true public/private community collaboration, and provides the gap financing necessary to attract private loans and investments to projects. HUD reports that as of January, 1997, HOME funds have been used in the following manner:

| | *Percent* |
|---|---|
| Rehabilitation | 58.2 |
| Construction | 28.5 |
| Acquisition | 10.3 |
| Rental assistance | 3.0 |

At least 15 percent of HOME funds must be set-aside for projects sponsored by nonprofit Community Housing Development Organizations (CHDO's). Most community development corporations (CDC's) qualify as CHDO's. HOME funds can be used to implement a locally defined housing strategy. The 15 percent of HOME funds that must be set-aside for community-based housing organizations has helped develop a locally-based nonprofit housing delivery system.

*Impact of the HOME Program*

Since HOME was created in 1990, it has helped to develop or rehabilitate over 230,000 affordable homes for low-income families.

Ninety percent of HOME funds used for rental housing must be targeted to families with incomes of 60 percent or below of area median. The remaining 10 percent

must be invested in housing occupied by families whose incomes are at or below 80 percent of area median. Actual targeting is deeper.

The majority of HOME funds are committed to developments that will assist very low-income people and a substantial amount will assist families with incomes no greater than 30 percent of area median. For example, 65 percent of all occupied HOME-assisted rental housing is rented to families with incomes of 30 percent of area median or less.

All funds used for homeownership programs must be targeted to households with incomes at or below 80 percent of area median. Again, these requirements have been exceeded. Thirty-two percent of homebuyers assisted with HOME funds have incomes at or below 50 percent of median income.

HOME funds help very low-income families realize the dream of homeownership by providing the downpayment assistance and second mortgages necessary to bridge the gap between the amount provided by a mortgage lender and the purchase price of a modest home. HOME has assisted 68,900 homebuyers.

HOME is cost effective and provides the gap financing necessary to attract private loans and investments to projects. For each HOME dollar invested in the new construction of affordable housing, four dollars of private and other public funds are committed.

On average, HOME provides $19,800 per unit to produce rental housing. Since the inception of the program, nearly $4.0 billion in HOME funds have leveraged $7.1 billion for a leveraging ratio of $1.79 of private and other public funds to each dollar of HOME funds.

*HOME Investment Partnership Appropriations From the Onset of the Program*

[Actual appropriations]

| *Fiscal Year* | *Billions of dollars* |
|---|---|
| 1992 | 1.5 |
| 1993 | 1.0 |
| 1994 | 1.275 |
| 1995 | 1.4 |
| 1996 | 1.4 |
| 1997 | 1.4 |

FUNDING COMMITMENTS AND DISBURSEMENTS—BY FISCAL YEAR SOURCE OF FUNDS

[Amount in dollars]

| Fiscal year source | Amount allocated | Committed | | Disbursed | |
|---|---|---|---|---|---|
| | | Amount | Percent | Amount | Percent |
| 1992 | 1,460,000 | 1,448,663 | 99.2 | 1,367,291 | 93.7 |
| 1993 | 990,000 | 978,562 | 98.8 | 820,876 | 82.9 |
| 1994 | 1,215,250 | 1,190,898 | 98.0 | 779,283 | 64.1 |
| 1995 | 1,339,000 | 1,030,044 | 76.9 | 430,054 | 32.1 |
| 1996 | 1,361,200 | 365,291 | 26.8 | 61,041 | 4.5 |

| Fiscal year source | Authorized for projects | Projects committed | | Projects disbursed | |
|---|---|---|---|---|---|
| | | Amount | Percent | Amount | Percent |
| 1992 | 1,328,033 | 1,313,089 | 98.9 | 1,240,647 | 93.4 |
| 1993 | 889,682 | 849,146 | 95.4 | 731,489 | 82.2 |
| 1994 | 1,087,296 | 967,876 | 89.0 | 692,837 | 63.7 |
| 1995 | 1,195,252 | 701,382 | 58.7 | 380,651 | 31.8 |
| 1996 | 1,154,400 | 135,808 | 11.8 | 50,275 | 4.4 |

*Leveraging*

| | *Amount* |
|---|---|
| HOME dollars commited to HOME units | $3,967,300 |

| | Amount |
|---|---|
| OTHER dollars commited to HOME units | 7,101,914 |
| TOTAL dollars commited to HOME units | 11,069,214 |

Ratio: Other dollars leveraged for each HOME dollar 1–79.

PROGRAM PRODUCTION

| | Millions of dollars | | Units [1] | |
|---|---|---|---|---|
| | Commitments to projects | Disbursements to projects | Committed | Completed |
| Activity in month | 71.8 | 78.6 | 5,985 | 7,005 |
| Activity in same month prior year | 101.1 | 68.6 | 5.973 | 3,332 |
| Activity in fiscal year 1996 | 1,039.4 | 929.9 | 61,943 | 47,271 |
| Activity in fiscal year 1997 | 328.0 | 356.6 | 24,633 | 23,337 |
| Total activity to date | 3,967.3 | 3,095.9 | 232,339 | 130,828 |

[1] Does not include Tenant Based Rental Assistance.

Note: Home program data as of 1/31/97. All figures adjusted to include estimates of IDIS activity except lower income benefit.

PROJECT FUNDING COMMITMENTS BY ACTIVITY TYPE AND TENURE

[In millions of dollars]

| Activity | Rental | Homebuyer | Homeowner | Total | Percent of funds |
|---|---|---|---|---|---|
| New Construction | 792 | 339 | ..... | 1,131 | 28.5 |
| Rehabilitation | 1,271 | 216 | 824 | 2,311 | 58.2 |
| Acquistion | 100 | 310 | ..... | 10.3 | |
| TBRA [1] | 117 | ..... | ..... | 117 | 3.0 |
| Total | 2,280 | 865 | 824 | 3,969 | ..... |
| Percent of funds | 57.5 | 21.8 | 20.8 | ..... | 100.0 |

[1] Does not include Tenant Based Rental Assistance.

UNITS COMMITTED BY ACTIVITY TYPE AND TENURE

[In millions of dollars]

| Activity | Rental | Homebuyer | Homeowner | Total | Percent of units |
|---|---|---|---|---|---|
| New construction | 35,682 | 17,794 | ..... | 53,476 | 23.0 |
| Rehabilitation | 67,226 | 10,264 | 54,440 | 131,930 | 56.8 |
| Acquistion | 6,092 | 40,842 | ..... | 46,934 | 20.2 |
| Total | 108,999 | 68,900 | 54,440 | 232,339 | ..... |
| Percent of units | 46.9 | 29.7 | 23.4 | ..... | 100.0 |
| TBRA [1] | 30,902 | ..... | ..... | 30,902 | ..... |

[1] Does not include Tenant Based Rental Assistance.

HOME COST PER UNIT BY ACTIVITY TYPE AND TENURE

[Dollars based on commitments]

| Activity | Rental | Homebuyer | Homeowner | Total |
|---|---|---|---|---|
| New construction | 22,192 | 19,032 | ..... | 21,141 |
| Rehabilitation | 18,910 | 20,998 | 15,136 | 17,515 |
| Acquistion | 16,420 | 7,588 | ..... | 8,734 |
| Average | 19,845 | 12,541 | 15,136 | 16,576 |
| TBRA [1] | 3,796 | ..... | ..... | 3,796 |

[1] Does not include Tenant Based Rental Assistance.

RESERVATIONS/COMMITMENTS/DISBURSEMENTS FOR CHDO'S [1]

| Fiscal year source | Percent of HOME funds reserved for CHDO's | Amount reserved for CHDO's | Percent of dollars reserved | |
|---|---|---|---|---|
| | | | Committed | Disbursed |
| 1992 | 21.6 | $315,793 | 98.6 | 89.2 |
| 1993 | 21.5 | 213,109 | 91.8 | 73.5 |
| 1994 | 23.1 | 280,839 | 82.6 | 50.8 |
| 1995 | 17.6 | 235,874 | 70.7 | 35.1 |
| 1996 | 5.7 | 78,096 | 55.2 | 19.4 |

[1] Community Housing Development organizations.

LOWER INCOME BENEFIT [1]—BASED ON OCCUPANTS OF COMPLETED PROJECTS AND RECIPIENTS OF TBRA

| Percent of median income | Percent of— | | | | |
|---|---|---|---|---|---|
| | TBRA families | Occupied rental units | TBRA and occupied rental units | Occupied homeowner units | Homebuyer units |
| 0–30 | 81.9 | 46.0 | 64.5 | 31.2 | 7.8 |
| 31–50 | 14.9 | 39.0 | 26.5 | 39.1 | 23.8 |
| Subtotal 0–50 | 96.8 | 85.0 | 91.0 | 70.3 | 31.6 |
| 51–60 | 2.1 | 11.9 | 6.9 | 12.6 | 23.4 |
| Subtotal 0–60 | 98.9 | 96.9 | 97.9 | 82.9 | 55.0 |
| 61–80 | 1.1 | 3.1 | 2.1 | 17.1 | 45.0 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

[1] Does not include PJ's converted to IDIS.

USE OF CDBG FOR ECONOMIC DEVELOPMENT AND JOB CREATION

*Background*

The San Francisco Renaissance Micro Business Incubator (MBI) is an example of a successful use of CDBG funds to foster and support economic self-sufficiency for low and moderate income residents. It is also an excellent example of how CDBG funds can leverage private funds to promote local community economic development.

The MBI was initially designed as a pilot to demonstrate the effectiveness of business incubation in stimulating growth of small businesses owned by new entrepreneurs. Low and moderate income women and minorities were targeted. The Renaissance MBI was the first in San Francisco and one of the first incubators in the nation to target these populations. The MBI is part of the larger Renaissance Entre-

preneurship Center which provides training, consulting, networks and financing assistance to small business entrepreneurs.

The MBI provides low cost office space, office support services and intensive business management assistance. Participants are expected to stay an average of two years and then be able to "hatch" out of the incubator. The goal of the Renaissance MBI is both to enhance self-sufficiency of families through self-employment and asset development and also to create jobs for community residents. As important, though difficult to quantify, are the role models which Renaissance entrepreneurs become for the neighbors and children of the community.

One MBI participant, Integral Results, has demonstrated phenomenal success, in profits, job creation, and contribution to the community. Lauren Gruner, Charles Okeke and Marlus Moscovici provide computer systems consulting on Oracle databases. They have hired three employees, two of whom were unemployed. Integral Results emphasizes its business values: 10 percent or $17,000 was distributed to community programs, including 10 scholarships for low income students in the SF Renaissance entrepreneurship training.

*Financing*

The San Francisco Mayors Office of Community Development seeded the Renaissance MBI with a planning grant in 1988 and provided small amounts of funding until corporations such as PG&E and Bank of America got involved. As it grows, the MBI also increases its ability to generate program income and now generates 46 percent of its budget from fees and income.

| | |
|---|---|
| CDBG funds (per year) | $50,000 |
| Corporations/Foundations | 50,000 |
| Self-generated fees | 85,000 |

*Results*

The project has exceeded expectations and now supports 15 tenants. In seven years, the MBI has served 32 businesses: 50 percent minority owned, 50 percent women owned and 150 jobs were created for San Francisco residents, including the owners. For every $1 of CDBG funds $3 in private funds are leveraged through this project. The San Francisco Renaissance Micro Business Incubator was recently honored by the National Business Incubator Association with the 1996 Special Focus Incubator of the Year Award.

THE TRANSFORMATION OF A RURAL VIRGINIA COMMUNITY

*CDBG*.—$435,480 (Planning grant, acquisition, site development)
*HOME*.—$545,400 (Architectural design, new construction 14 units)
*Non-Profit Contribution*.—$15,000
*Local Business*.—$2,000 (Donated material for fencing)
*Local Vocational Schools*.—In Kind Student Labor (Construction of fencing panels)

The project which built the Mill Run Apartments, 145 subsidized rental housing units in the town of Belle Haven, Virginia, began in 1990 with a CDBG planning grant and was completed in December 1995. Fourteen families (31 people) were housed through this project.

Duertown was one of the most notorious pockets of substandard housing in Accomack County, Virginia. Duertown was constructed as migrant housing in the 1940's. It consisted of 14 cinder block units built on concrete slabs which were below grade level of the surrounding land. Water flowed under the doors during rainstorms. All of the units lacked complete indoor plumbing facilities. Each unit had cold water only to a kitchen sink. Wastewater from the sinks was discharged through a pit near each house containing two 55-gallon drums and crushed shell material. Each house was served by a pit privy in various state of repair. Duertown was cited on numerous occasions by the Virginia Department of Health and was identified in their shellfish surveys as a major pollutant to local shellfish grounds due to its poor methods of sewage disposal.

Rental income from the property was not sufficient to afford additional improvements to the property so the owner came to the Accomack-Northampton Housing and Redevelopment Corporation seeking help to rehabilitate the housing. The HUD Rental Rehabilitation Program about which he inquired was no longer in existence and no new program was available for rehabilitation of rental property. The nonprofit requested the Town of Belle Haven to apply for Virginia Community Development Block Grant (CDBG) funds to help correct the problem.

In 1990 the Town applied for and received CDBG Planning Grant funds to design a strategy for improving the living conditions in Duertown. It became apparent almost immediately that rehabilitation was not a feasible alternative. A preliminary engineering study and architectural plan was developed for a workable alternative for construction of new units for the residents of Duertown.

In 1991 the Town of Belle Haven applied for and received $415,480 in CDBG funds for site development, temporary relocation, acquisition of a sewage easement and construction of a mass drainfield on a neighboring property.

Throughout the project development the residents were active in working with the architect and the Housing Corporation Board of Directors in the design process. The architectural plans reflected a real feel for "people spaces"—storage areas, utility areas and enclosed back yards were included in the design. The housing units were designed as duplexes with a site plan which makes the complex feel more like a neighborhood than apartments, an important component to the residents who planned on keeping their neighborhood together at their new site.

The community at large also became involved. A local building supply company donated $2,000 in fencing materials. The vocational classes from five schools made all of the fencing panels. Before construction residents picked their units on a copy of the site plan and were able to follow the progress of their own unit. Some residents came daily. Residents were encouraged to submit names to the Belle Haven Town Council for a name for the new development.

Some unique construction techniques were used in building the units. Prefabricated framing and trusses were delivered and erected on site. Instead of vinyl, poured flooring was used. (Poured flooring is done by painting an epoxy-based substance on the floor, scattering color chips over that and covering the whole thing with a clear epoxy coat). The units were constructed to the power company's Super E+ energy efficiency rating. All units are heated/cooled with heat pumps.

The residents were moved, as a group, to the newly constructed Mill Run Apartments in the Town of Belle Haven. These 14 subsidized rental units house 14 families (31 people) who celebrated their first year anniversary in their new homes this past Christmas. The residents pay 30 percent of their income for units which are more than just safe, decent and sanitary. They were relocated as a neighborhood and they are still a neighborhood. They take great pride in where they live and their involvement in the development process makes it all the more special to them.

For more information about this project or an opportunity to visit the site contact: Kathy O'Keefe, Director of Housing Services, Accomack-Northampton Housing and Redevelopment Corporation, P.O. Box 387, Accomack, Virginia 23301, (804) 787–2936, office, (804) 787–4221, fax.

The Accomack-Northampton Housing and Redevelopment Corporation was established by local governing bodies to address housing of their low- and moderate-income residents. Since its establishment, the Corporation has conducted housing rehabilitation projects using Virginia CDBG and Indoor Plumbing Funds in Accomack and Northampton Counties and in eight of the incorporated towns and developed 44 units of subsidized rental housing. The Corporation operates a 262-unit Section 8 Existing Rental Assistance program in these counties and from 1983 to 1984, the Corporation was property manager for 215 FmHA units occupied by low-income families.

### CDBG/HOME FUNDED SPECIAL NEEDS HOUSING PROJECT

*Who:* Mt. Hood Community Mental Health Center (Mt. Hood CMHC), 400 NE 7th Avenue, Gresham, OR 97030.

*What:* Coburn Woods Apartments. Ten new construction rental units for adults with a chronic mental illness.

*Where:* 17311 E. Burnside, Gresham, OR 97230. A rapidly growing suburb located east of Portland. Its population is currently about 80,000, making it the fourth largest city in Oregon.

*Financing:* The total cost of this project was $775,762. Funds were obtained from several sources, which are listed below. As is the case with many projects targeted for low-income and "special needs" residents, a combination of federal and state assistance, with below-market funding for acquisition and rehabilitation, and a source of conventional funding were all needed.

*Funding Sources*

| | |
|---|---|
| HUD 811 | $675,330 |
| Oregon State Trust Fund | 31,100 |
| Oregon Mental Health Grant | 25,000 |
| Mt. Hood CMHC Contribution | 3,332 |

| | |
|---|---|
| CDBG/HOME | 50,000 |
| Total | 775,762 |

A $43,000 acquisition loan was obtained from the Enterprise Foundation and repaid at the beginning of the construction phase. The loan was at six percent interest, with the principal and interest deferred for two years or until the construction began whichever occurred first.

The Coburn Woods Apartments consist of a single building to promote independent living for very low-income adults with a chronic mental illness. The project includes nine one-bedroom units for residents and one two-bedroom unit for the apartment manager. The one-bedroom units are approximately 740 square feet including a kitchen, bathroom, and a living/dining area. To promote social interaction, the project has a community room and a patio area for outdoor gatherings.

The complex offers residents the ability to live independently while obtaining much-needed support services. These services include case management, psychiatric help, drug and alcohol services, vocational rehabilitation services and assistance with the activities of daily living. In accordance with the HUD 811 program, all residents are very low-income and pay no more than 30 percent of their adjusted income for rent and utilities. Resident contributions are based on income; the maximum is $141 per month.

Coburn Woods was developed in response to local awareness of the need for facilities to house people with "special needs" including those with mental illness. Before this project was developed, Mt. Hood CMHC had a waiting list of more than 60 applicants for affordable apartments with supportive services. It took applicants years to get apartments because turnover in Mt. Hood CMHC's projects was very low—fewer than one vacancy per year.

USE OF CDBG FOR INFRASTRUCTURE IMPROVEMENTS

*Background*

Air transportation facilities of the Reading Regional Airport are surrounded by an industrial park. About 25 percent of the annual revenue of the airport is generated by the industrial park. The airport authority decided to undertake an aggressive capital improvement program to fully utilize two underdeveloped sections of the park.

One of the tracts was a former military base that had declined steadily since the end of World War II. Forty-seven structures in the area were single-story block buildings and inadequate by today's standards for industrial usage. Of this total, 63.8 percent were deteriorated and incapable of supporting any revitalization effort. In addition, the buildings were scattered over the entire area, thereby making expansion or consolidation of facilities impractical. Because of the original structural design and current condition of the buildings, it was necessary to demolish and clear those structures which would otherwise impede meaningful development.

Infrastructure in the area also was in disrepair. The original roadways lacked a substantial sub-base and contained large potholes. The narrow roads with excessive curves were not conducive to serving the types of development the airport authority sought. The water service was non-existent in certain areas and the sanitary sewer system was primarily comprised of old terra-cotta pipes which were collapsing. Recognizing that the existing infrastructure was inadequate to accommodate any upgrading or expansion for development, Berks County declared the area blighted and undertook the following: preliminary engineering studies and site improvements; demolition and removal of selected buildings and relocation of tenants; and installation of a new road system; installation of water, sanitary sewer, storm sewer and other related utilities.

*Financing*

| | |
|---|---|
| Sec. 108 guaranteed loan funds (airport authority pays all interest on the Sec. 108 notes) | $2,000,000 |
| Berks County CDBG funds | 250,000 |
| Grant from the state of Pennsylvania | 127,000 |

*Results*

Upon completion of the public improvements, a local developer began development of an industrial park. With a target of 1.4–1.6 million square feet of office, warehouse/distribution and manufacturing space, construction costs alone range between $35–$40 million. To date, three businesses have located in the park with over 500,000 square feet of space. Over one hundred new jobs have been created of which approximately 60 percent are held by low- and moderate-income persons. Based

upon the current tax millage of the three taxing bodies, the $40 million investment in new buildings will generate $117,400 in county tax revenue, $610,000 in school district tax revenue, and $23,548 in township tax revenue. With this revenue the jurisdictions can pay for services to residents and attract additional businesses.

ECONOMIC DEVELOPMENT PROJECT—STATE OF IOWA

*The Promise Jobs Program*

An initiative that demonstrates Iowa's collaborative effects using the CDBG program is its Promise Jobs program. In 1996, IDED setaside $3 million of its CDBG funds to help save the state's under-funded Promise Jobs program, an integral part of Iowa's welfare reform initiative. The program provides education and training, as well as child care and transportation to help participants escape welfare. The rescue of Promise Jobs has required IDED to carefully coordinate activities with the Departments of Human Services and Employment Services, and with communities and providers in service delivery areas across the state.

*The Quality Jobs Program*

The Quality Jobs program is designed to foster training services to Promise Jobs participants who are on the waiting list for post-secondary classroom training. Promise Jobs funding is insufficient to enroll these individuals in the training that has been identified in their Family Investment Agreements. Therefore, the Department of Economic Development has allocated funds from its CDBG program to serve the needs of these participants.

The Quality Jobs program will operate as a demonstration project in several Service Delivery Areas. In addition to meeting participant needs, the projects are intended to demonstrate the efficacy of the post secondary component and re-emphasize the IDED's commitment to a quality trained workforce as a foundation to economic development efforts. Project operators will monitor and report the achievements of program participants in support of increased levels of funding for training. Projects will also be asked to provide examples of applied learning techniques and industry-specific training, where possible.

PROJECT CONDITIONS

1. Operating entities.—JTPA/Promise Jobs contractors will be the service delivery system for the QJ program.

2. Number to be served.—The QJ program is designed to serve up to 1,000 participants in selected Service Delivery Areas (SDA's) beginning in the Program Year 1995.

3. Period of operation.—The total demonstration period is from July 1, 1995, through June 30, 1997. QJ participants must be able to complete training within the demonstration period.

4. Funding.—Funds in support of training up to 1,000 participants will be available.

A. Participant process.—Quality Jobs participants must be select from the Promise Jobs waiting list. The EI must describe participant selection criteria that includes; the participant's need for training and the likelihood of the participant becoming employed and self-sufficient, i.e., leaving the Family Investment Program (FIP). In addition, the EI may describe selection criteria that includes the participant's investment in the training plan as demonstrated by going to school and/or working while on the waiting list, by serving as an Iowa Invest mentor or by some other initiative taken by the participant.

B. Activities and services.—This part of the EI must identify and describe the activities and support services that will be provided to the participants. The EI must follow these guidelines:

—Pell and other grants will be used for tuition, fees, books, and supplies. The QJ program will pay remaining costs up to rates charged at Iowa Regents institutions.

—The QJ program is the child care payor of last resort. If the participant can access another child care program, it must be accessed. When such child care is not available, actual child care costs will be paid.

—Transportation will be paid on an reimbursement basis.

STATE OF TEXAS PARTNERS WITH STEP [1] TO CONSTRUCT WATER AND WASTEWATER SYSTEMS

The state of Texas is establishing a prototype in the way states can assist small, rural communities address their water and wastewater needs. The Texas Department of Housing and Community Affairs, the Texas Natural Resource Conservation Commission (TNRCC) and the Texas Water Development Board have been instrumental in supporting the STEP effort in Texas. Given that TNRCC is the environmental regulatory and compliance agency, it assumed the lead in the Texas-STEP program.

The colonia of Arroyo Colorado Estates, an unincorporated community along the Texas-Mexico boarder is the site of a STEP project. These areas are typically the sites of large numbers of lower income people, living in "shanty town" conditions, without adequate water and wastewater treatment or the means to access services that may be available to them. Priority in funding applications and systems within the traditional avenue with the state always prefer incorporated localities over colonias. Community officials were informed that it could take anywhere from seven to ten years to design, finance and implement a solution to their problem if they waited or relied on traditional state/federal funding avenues. A cost of over $1 million was much more than the community of 171 households could afford.

Members of the community decided that they could do much better than seven to ten years and proceeded to form a nonprofit development corporation, the Arroyo Colorado Estates Water Supply Corporation (ACEWSC) as the vehicle for bringing sewer service to the area. Once ACEWSC was formed, members searched for ways to bring the project cost down. They searched for an engineering firm that was amenable to working in a "self-help environment," which often proves difficult. Engineers and engineering firms are often unwilling to work with the self-help approach. Engineers are used to working in very controlled environments, with standardized practices and procedures, so it is not surprising that the self-help concept would be foreign to them. It is also very probable that the uncertainty of financing is also a major deterrent. However, as funding levels dwindle and localities lose the economic wherewithal to traditionally pay for water and sewer needs, alternative financing and engineering methods are being employed.

With guidance from TRI, Texas-STEP, ACSWSC found methods to lower the cost of the project. They found an engineering firm comfortable using and working within the confines of the self-help model. ACEWSC used volunteer labor and other in kind contributions such as equipment to bring the $1 million project down to an affordable $150,000. They were able to access TRI's Self-Help Loan Fund for short term financing, found an entity to purchase the system and take over operations once the project is complete and repay the loan with user fees. User fees are expected to be approximately $25 per month. The Texas Division of Natural Resources estimates costs could approximate $720 million to meet the needs of the other colonias within the state. Using the STEP approach could lower the estimated cost by as much as 60 percent.

---

[1] States are beginning to seek many unorthodox methods for assisting the most impoverished communities to obtain safe, clean water and adequate wastewater disposal. One such method is the Small Towns Environment Program (STEP) which is operated by the Rensselaerville Institute (TRI) with support from the U.S. Environmental Protection Agency and the Ford Foundation. Since 1989 STEP has been assisting state governments to build support networks that enable small communities to solve water and wastewater problems using less money and more local initiative. Self-help as defined and implemented by STEP refers to a variety of cost-saving techniques including conservation, use of appropriate technology, local administration of projects, inter-local cooperation, use of volunteer labor, direct purchase of materials and others.

STEP first began in New York State in 1989. Its Self-Help Support System has assisted approximately 160 community projects over the past ten years, achieve cost savings of more than $18 million. There are currently ten states that have become partners with STEP by undertaking demonstration projects, putting forth the self-help message in small, rural, communities. These states are: Arkansas, Idaho, Maryland, New York, North Carolina, Oregon, South Dakota, Tennessee, Texas and Washington.

STEP administers a $1.5 million revolving loan fund underwritten by the Ford Foundation. The loan fund supports the goals of the program by providing low-interest construction financing to disadvantaged communities in STEP states. STEP works closely with state governments and specifically with the departments that control and maintain standards on safe drinking water and proper wastewater treatment.

Throughout the process of working with small communities in a self-help program many issues of project development and design have become standard. One very important standardization is the size, economic level and overall "commitment" of the people with whom the services are being provided. The project managers at STEP have designed a "checklist" that enables them to (1) determine if the locality is a good STEP candidate and, (2) when its time for the STEP community to assume operations of its new system.

NORTH LITTLE ROCK HOME PROJECT

*Project Name:* Argenta Home Rehabilitation
*Project Address:* 108 Melrose Circle, North Little Rock, Arkansas
*CDC Sponsor(s):* Argenta Community Development Corporation
*HOME Funds:* $27,200
*Total Project Costs:* $63,000

For many years, the historic Argenta neighborhood of North Little Rock, Arkansas maintained the highest crime rate in the city. Yet, many dilapidated single family bungalows and vacant lots offered opportunities for development. In 1994, the Argenta Community Development Corporation (Argenta CDC) was created by residents who had formed a Booster Club to identify properties which needed substantial improvement. Argenta CDC enjoys a strong base of neighborhood support, with over 270 people on the CDC membership list.

In just two short years, the CDC's efforts have brought more than $1.6 million into Argenta to renovate single-family homes. A total of 23 single-family have been rehabilitated. Sales of renovated homes have been swift, and the transformation of the area has been remarkable. A neighborhood once plagued with crime and instability is home to new homeowners in well-maintained houses. More families have been moving back into Argenta, crime rates have plummeted and a new sense of neighborhood pride is spreading.

One of the homes Argenta CDC assisted was 108 Melrose Circle. Originally constructed in 1924, the house remained abandoned for several years prior to the Argenta CDC's purchase. The house was in disrepair from years of neglect and a series of haphazard and unsafe additions. It also represented an arson risk. The CDC's improvements to the house resulted in the creation of a 3-bedroom, 2-bath home to accommodate Michelle Martin and her family.

Michelle Martin was born in North Little Rock. One of five children, she was raised by a single mother in a poor area of the city. Michelle became a single unwed mother herself at age fifteen and left school after the ninth grade.

As an adult, Michelle lived in public housing for seven years, and was supported by welfare and food stamps. In 1985, through her own efforts, her life began to take a turn for the better. She became an employee of the North Little Rock Public Schools, and is now a supervisor of a school cafeteria where she earns $11,000 annually. Currently, she is also working towards her GED. Within the last two years, Michelle successfully completed self-sufficiency classes offered by the North Little Rock Housing Authority, and was among the first of many low-income home buyers to seek assistance from Argenta CDC. She completed home buyer counseling classes.

To help make Michelle's dream of homeownership a reality, $27,200 in HOME funds helped finance construction and her mortgage. The Argenta CDC Board approved the application for HOME funds in recognition of Michelle Martin's remarkable "Welfare to Work" life story. Other financial partners include First Commercial Bank and Metropolitan Bank which provided a line of credit for contractors. The Community Development Agency of the City of North Little Rock and ARKLA, the local gas company, provided a grant for gas street lamps for all of the Argenta rehabilitated homes.

With help from the HOME program, Michelle was able to purchase her home and is now one of nineteen home owners residing in Argenta CDC-assisted homes. She lives with her three children and one grandchild. When asked about her new home, Michelle states, "It is everything I always desired, more comfortable than any place I have ever lived. I thank Argenta CDC for helping me make my dream of owning my own home come true.

CARLTON TERRACE SRO APARTMENTS OFFER HOUSING, HOPE

*Editor's Note:* In June 1995, HUD, through the National Affordable Housing Training Institute (NAHTI), recognized nine projects and four honorable mentions in its "Excellence in Affordable Housing" competition. The following is a summary of the winning project from an ALHFA member jurisdiction.Chicago's Sheridan Park Historic District is a unique blend of the old and the new. Its citizenry is among the most diverse in the country, combining African American (924 percent), Caucasian (39 percent), Latino (23 percent) and Asian (14 percent) populations. Some have been in the area for generations; many more are new Americans. Some earn a good living, while others live on next-to-nothing. While neighborhood block associations fight to preserve the area's safety and historic integrity, gang violence and drug-related crime is on the rise. Moreover, homelessness has become increasingly common, and the neighborhood's overall living condition is uncertain.

Like the area's population, the neighborhood's buildings are also diverse—some impeccably maintained and others vacant and downtrodden.The City of Chicago has

partnered with several nonprofits to combat the area's deteriorating condition. One of these nonprofits is Lakefront SRO Corporation, a local affordable-housing developer that has acquired and rehabilitated four buildings in the Sheridan Park neighborhood. Lakefront's mission is clear: to reduce homelessness through the preservation of valuable (and vulnerable) SRO structures (more than 70 percent of Chicago's SRO buildings have been lost since 1973). The Carlton Terrace Apartments is the most recent credit to Lakefront's mission and to the neighborhood in which it operates.

In 1992, Lakefront was seeking a site for its fourth SRO project. When the Carlton came on the market, it was in reasonably good condition, but its former owners had run out of money to maintain the property. Lakefront was immediately interested in the architecturally unique building. With the help of the City of Chicago's Department of Housing and the HOME program, Lakefront was able to acquire the Carlton and began reconstruction shortly thereafter.

The project, which serves 70 single, formerly homeless individuals, was financed with a wide variety of public and private sources, not the least of which was a deferred first mortgage in the amount of $1,536,000 funded by HOME through the Department of Housing. In addition, the project received a total of $951,694 in low-income housing and historic tax credits through the National Equity Fund, a nonprofit subsidiary of the Local Initiatives Support Corporation (LISC). A grant in the amount of $500,000 from the Illinois Housing Development Authority "filled the gap" in the construction and permanent financing packages for the project.

In addition to rehabilitating older SRO buildings to serve the very poor, Lakefront SRO implemented what it calls a "blended management" system in all its affordable housing projects. This means that in addition to traditional property management, which keeps the building and surrounding property in good condition, each property's staff is obliged to go the extra mile for its residents and neighbors. For its residents, the Carlton offers a variety of supportive services, including individual case management, substance abuse meetings and counseling and employment assistance—at no charge to the tenant. With this support network in place, Lakefront hopes that residents will begin to weave their lives back together. When a tenant "moves up and out," it creates a new opportunity for another homeless person who so desperately needs the help.

USING HOME TO BUILD HOMEOWNERSHIP AND PARTNERS

The HOME program is an important source of funding for homeownership initiatives across the country. Recent HOME statistics published by HUD reveal that more than 21 percent of all HOME monies are spent to build, rehabilitate and acquire homebuyer units. Furthermore, around 28 percent of the units currently produced under the HOME program are home ownership units. Clearly, the HOME program has facilitated the creation of many successful homebuyer programs, but, more important perhaps, it has encouraged the development of new partners and leaders for the development of housing in communities throughout the nation.

The Clark County HOME Consortium—which gathers unincorporated Clark County, Nevada and the cities of Las Vegas, North Las Vegas, Boulder City and Mesquite under one funding and administrative umbrella—used a First Time Homebuyers Program as a launching pad to transform a social service organization into a strong CHDO, which now produces a variety of affordable housing opportunities in the area.

In 1993, the Economic Opportunity Board (EOB), a large and established community action agency, became a CHDO and approached the HOME Consortium with a proposal to develop a First Time Homebuyer Program. The need for such a program was evident. First, the area was in the midst of a population boom, fed by the 3,000–4,000 people moving into the county per month. Second, since 1980, the cost of rental housing had risen over 70 percent throughout the county, driven by the rapidly growing casino/gambling industry, which had created a plethora of minimum-wage service sector jobs. Third, the people in service-sector jobs could not afford to become homeowners and ended up paying increasingly rising rents, which kept them from saving the money to make a down-payment on a home. Finally, older and moderately priced single-family homes were available in the county and seemed perfect for a homebuyer's initiative.

Over the first two years, the HOME Consortium contributed $450,000 of HOME money and county money to the initiative. According to Michael Trend, management analyst for Clark County, this substantial investment was motivated by the recognition that "large-scale efforts undertaken by non-profit organizations are often plagued by under-capitalization, and the consortium wanted to make sure that the EOB had enough resources to do the job." Part of these resources came in the form

of HOME operating expenses, which enabled the EOB to hire the staff and develop the expertise to build a strong homebuyer's program.

Under this program, a bank or mortgage company carries a family's first mortgage and the EOB provides down-payment assistance. This down-payment assistance is limited to $5,000 and structured as a no-interest-bearing loan that becomes a full-fledged grant after five years. The decision to make this assistance a grant is based on the belief that for such a small initial investment, it is "counter-productive to monitor and recapture money that will be worth five or ten cents on the dollar some 30 years hence." By providing this shallow non-payment subsidy, EOB feels that it has been able serve more people than if it had decided to fully finance a few homes for a few families.

Eighty-seven families have become homeowners as a result of EOB's program. More than 72 percent of the loans have been made to traditionally underserved minority populations, while 30 percent of the loans have been made to households making less than 60 percent of the area's median income. EOB's homeownership program is a model across the county and has generated more opportunities for homeownership than any other HOME program in the state of Nevada. The City of Las Vegas has recently chosen EOB to administer a $220,000 HOME-funded homeownership program, a testament to the organization's strong administrative capacity.

With the homeownership experience under its belt, EOB has willingly undertaken a series of new and innovative housing initiatives. In 1995, EOB added an "acquisition, rehabilitation and re-sale" component to its program. The CHDO acquires "board ups" and other substandard units from HUD, city, and county repo-lists for a low price and rehabilitates them for sale to low- to moderate-income homebuyers. EOB uses its own maintenance crews to do most of the rehabilitation work in the units. This in-house rehabilitation allows the non-profit to save money, but also prepares the ground to develop a job training program for underprivileged youth. The county and EOB are still working on the job-training program component of the new program, with the expectation that it will become an important feature of their work under Section 3. According to Mike Trend of Clark County, this initiative is "especially noteworthy in that the EOB is going to make the effort to be self-supporting."

EOB is now working to provide a continuum of care in its housing programs. The CHDO owns and runs transitional units for homeless families, possesses 50 units of transitional below market rental housing, which were developed with HOME funds, and is designing a lease-to-purchase program which will be coordinated with the organization's homeownership and acquisition/re-sale initiatives.

The innovation and the strength of EOB's housing program is reflective of the Clark County HOME Consortium's original commitment to the CHDO's homeownership program. According to Mike Powlack of EOB, this commitment went beyond funding. The Clark County HOME Consortium gave the CHDO the flexibility to run its program in both unincorporated and incorporated areas and provided the organization with freedom to design the program as it saw fit. Furthermore, the county was and continues to be the EOB's helpful partner, assisting in working through problems and challenges that the CHDO faces. With the Clark County HOME Consortium's help, the EOB's homeownership program has blossomed into a multi-pronged affordable housing initiative and a powerful agent in building hope and opportunity in communities across the county.

### ASTER PLACE APARTMENTS AT BLOOMFIELD, PARTNERSHIPS FOR AFFORDABLE HOUSING

*Editor's Note:* In June 1995, HUD, through the National Affordable Housing Training Institute (NAHTI), recognized nine projects and four honorable mentions in its "Excellence in Affordable Housing" competition. The following is a summary of the winning project from an ALHFA member.

When the Housing Development Corporation, a local nonprofit developer in Lancaster County, Pa., proposed to build affordable housing in one of the county's most affluent suburban townships, it set itself on a path that few had traveled before. Located 50 miles west of Philadelphia, Lancaster County, traditionally an agricultural region, has experienced important industrial growth over the past 30 years. This growth has been most vigorous in the county's suburban communities where housing developers have built expensive homes to cater to the newly expanding population. This push to develop luxury housing has left the needs of low- and moderate-income families unaddressed. While many of the county's new jobs are located in suburban communities, most of the affordable housing remains within the city of Lancaster, creating a dramatic imbalance between employment and housing opportunities.

In response to this growing imbalance, the Housing Development Corporation designed the Aster Place Apartments at Bloomfield project, a mixed-income planned community which would bring together 66 new affordable apartment units and 98 fee-simple, for-sale townhouses in a suburban setting. The critical element in the project's plan was the emphasis it placed on the creation of partnerships between municipalities, townships, and the Housing and Redevelopment Authorities as well as between the low-income families living in the affordable apartment units, and the families residing in the planned community's town homes. The result of these partnerships has been the first affordable housing project locally produced in Lancaster County's suburbs in the past 10 years.

The Aster Place Apartments at Bloomfield are located in Manheim Township, the county's most affluent suburban township. Virtually no affordable housing existed in the area before the Aster Place Apartments, which proved to be an important factor for the Housing Development Corporation when it chose the project's site. The developer had to overcome negative perceptions of affordable housing, and restrictive zoning and land-use ordinances. Through extensive discussions with township officials, local leaders, and neighborhood organizations early in the project's planning, the Housing Development Corporation mitigated community opposition. These discussions forged a close working relationship between the developer and Manheim Township, facilitating the modification of the zoning requirements that made the project possible.

The apartment portion of the project, which was opened in fall 1994, includes 50 two-bedroom apartments averaging 938 square feet each and 16 three-bedroom apartments averaging 980 square feet. Typically, the apartments' residents include single-parent households, single-person households, and elderly households. People who moved into the apartments were often living in Lancaster city and commuting to the suburbs or paying more than 30 percent of their incomes for housing in one of the county's suburban communities. This housing targets households making less than 60 percent of the area's median family income. The apartment project's waiting list attests to the further need for this type of housing in the area.

In addition to providing affordable housing to low-income families, the project offers a Supportive Service Program, including budgetary counseling, latch-key programs, substance-abuse prevention, educational seminars, health programs or any other identified need. The goal is to empower residents to become partners in the life of their community and to provide them with the skills necessary to become homeowners. Ideally, residents with adequate means will choose to move from the Aster Place Apartments into the Aster Place Town Homes.

The project depended on financing from a variety of sources, including HOME funds. The Housing Development Corporation used HOME funds, which allowed them to construct new housing at a soft, low-interest mortgage of $662,500. The state Department of Community Affairs made a similar loan in the amount of $200,000 through its Housing and Community Development Program. The state Housing Finance Agency provided soft secondary financing of $1,000,000 and a first mortgage of $1,200,707. High Investors, Ltd., a local securities broker, provided $2,050,000 in equity from various investors.

The Housing Development Corporation's Aster Place Apartments at Bloomfield project highlights the partnerships that can be created to generate a viable community that provides housing opportunities for families at all income levels. Furthermore, the project serves as a reference for communities looking to create affordable housing where none existed before.

### THE 15TH AVENUE CO-OP OF THE CITY OF ESCONDIDO, CALIFORNIA

The 15th Avenue Co-op is the first limited equity housing cooperative to be developed in California's San Diego County. Limited equity cooperatives offer an alternative to renting for low-income families by allowing them to own the building in which they live.

Like many cities today, Escondido is faced with an increase in deteriorating housing stock, overcrowded housing and urban blight. In Escondido, the problem of overcrowding is compounded by a lack of suitable units in the city's existing multi-family housing, especially the lack of three- and four-bedroom units for large families. The vast majority of multi-family housing in Escondido consists primarily of studios and one- and two-bedroom units. Only 17 percent of its rental units have three or more bedrooms. Due to the shortage of appropriately sized units, there are relatively few existing multi-family buildings that are suitable for acquisition and rehabilitation for lower-income families.

The 15th Avenue Co-op had its beginnings after an apartment building that was nearly vacant and in need of extensive rehabilitation was also identified as having

the potential to be redesigned to provide three- and four-bedroom units. The building was severely deteriorated with roof and plumbing leaks, holes in many of the walls and ceilings, torn carpets, and broken interior fixtures. The exterior was also deteriorated with missing asphalt in the parking lot and no landscaping. Due to the condition of the building, as well as the inability of previous renters to continue paying rent, all but one of the occupants had moved out. The building, however, provided an ideal opportunity for rehabilitation because of the availability of existing utilities and its proximity to major thoroughfares, public transportation, and amenities such as a neighborhood market, restaurants, elementary schools and child care.

The 15th Avenue Co-op is located in the center city residential area. In addition to convenient services, the neighborhood hosts a mix of residential development consisting of apartment complexes and single-family residences. The area encompasses approximately nine city blocks and has been identified by the city as an ideal area in which to promote a wide range of housing opportunities. The estimated average annual income in the area (for a family of four) ranges from about $7,000 to $28,000. Fifty-two percent of area residents are Hispanic, and the remaining 48 percent are Anglo-Americans, African-Americans, Asian/Pacific Islanders, and others.

The long-term financial success of the project is assured with the commitment of all funds. Project financing is unique because three reserve accounts will be set up instead of the standard two. In addition to the usual operating and replacement reserves, a third reserve account will enable paydown of the principal in order to reduce mortgage payments should they go up in the eleventh year. The best loan that was available offered low, fixed-rate interest for the first ten years only. Thus, the monthly carrying charges could rise in the eleventh year. However, this will be avoided due to the third reserve account.

*15th Avenue Co-op Funding*

The project was funded by a variety of public and private resources, but 47 percent was received from HOME funds. The next highest contributor was SAMCO, a statewide consortium of lenders, which provided approximately 32 percent of the needed resources through a 30-year loan. The City of Escondido's Rehabilitation Program provided an additional 13 percent of funding and the remaining came from other contributors. Additional sources included "sweat equity," which was provided by the future residents' participation in the demolition of the building, construction clean-up and installation of the fixtures such as toilets, screens and doors. The breakdown is as follows:

| | |
|---|---|
| HOME funds | $580,000 |
| (3 percent simple interest deferred first 10 years) | 405,000 |
| (3 percent 30 years, residual receipts) | 175,000 |
| SAMCO (standard 30-year loan) | 400,000 |
| City of Escondido Rehabilitation Program (Funds are obtained for the program through set-aside funds from tax increments obtained within the redevelopment area) | 160,000 |
| Affordable Housing Grant (received from the Federal Home Loan Bank) | 60,000 |
| Developer/resident equity | 24,450 |
| Total | $1,224,450 |

In addition to the HOME funds, the city's rehabilitation funds and the developer's equity, other sources of interim funding include $48,000 from the Local Initiative Support Cooperation and a Bank of America Community Development Bank Loan of $404,500.

The financial success of the project can also be attributed to the fact that the resale price of shares will be fixed, which will encourage long-term ownership. In turn, success may be even greater since residents will have a vested interest in and control of the operation costs.

Principals involved with the project believe that the HOME program played a very important role in its feasibility. HOME program funds contributed 47 percent of the total development costs, which made it more attainable for the developer to be able to pull together other funding commitments. Also, when it comes to financing such a housing project, private financing institutions take a close look at leverage coming from a public source.

Because of the attractive loan terms offered by the city in respect to HOME funds, the developer was able to offer quality affordable housing and lower rents for very low-income households in the community. Furthermore, the City of Escondido has been able to expand its supply of affordable housing with the availability of HOME funds coming directly from the State Department of Housing and Community Development, as well as the U.S. Department of Housing and Urban Development.

CALIFORNIA RENAISSANCE VILLAGE: THE REBIRTH OF AN AMERICAN NEIGHBORHOOD

Just a few short years ago, the Glenwood Avenue Apartments, located in Rialto, Calif., was a neighborhood in distress. The 144-unit complex was deteriorating, the area was plagued by crime, and the few habitable dwelling units were difficult to rent. Other units were in foreclosure or boarded up.

Then, the City of Rialto, San Bernardino County, the Southern California Housing Development Corporation (a local, not-for-profit community housing development corporation), area financial institutions, and local residents formed a partnership to design and implement a comprehensive neighborhood revitalization strategy for the Glenwood Avenue Apartments. The partners assessed the underlying problems of the complex, most notably that it was an eyesore and a financial abyss.

The revitalization of the complex—which was later renamed Renaissance Village—made it an ideal candidate for the HOME Investment Partnerships Program because it entailed the acquisition, demolition, rehabilitation, and continued management of the 144 units, and resulted in the rebirth of an American neighborhood. Area lenders offered financial incentives to potential buyers, managers, and tenants. The City of Rialto leveraged funding, ownership, and management options at the state and local level, while San Bernardino County tapped funding mechanisms at the federal level. Finally, the Southern California Housing Development Corporation (SCHDC) participated in acquiring, rehabilitating, and operating the complex.

Over a two and one-half year period, the project's HOME program objectives were met through the multilevel, comprehensive partnership. The $7.5 million project was funded by a highly creative plan that included: (a) a $1.5 million gap financing and a 30-year $500,000 bond issue—credit-enhanced by Fannie Mae—from the Rialto Redevelopment Agency; (b) a $500,000 HOME Investment Partnerships Program loan approved by the San Benardino County Board of Supervisors; and (c) a $500,000 grant from the Federal Home Loan Bank of San Francisco Affordable Housing Program. In addition, SANWA Bank, Calif., provided a $500,000 construction loan for rehabilitation, and the American Savings Bank, Great Western Bank, Fidelity Federal Savings, and Freddie Mac provided assistance through mortgage balance write-downs during SCHDC's acquisition period.

In addition to saving the dilapidated apartment complex, SCHDC has provided extra amenities for the restoration of the neighborhood. The area that once looked like a war zone now boasts a gated neighborhood community of attractive residential housing, a "tot lot," two swimming pools, picnic areas, basketball courts, indoor recreation facilities, landscaping, and, most important, residents. To prevent some of the problems faced by the former complex, in-house security personnel patrol the grounds from 10 p.m. to 6 a.m., and local law enforcement agencies are working with the community to ensure a safe environment for the residents.

Renaissance Village is 100 percent affordable—20 percent of the units rent to households earning 50 percent of area median income, while 80 percent rent to individuals earning 60 percent of median income.

San Bernardino County submitted Renaissance Village for the NACCED HOME Awards awarded at the NACCED 21st Annual Conference.

---

PREPARED STATEMENT OF THE U.S. CONFERENCE OF MAYORS, THE NATIONAL ASSOCIATION OF COUNTIES, THE ASSOCIATION OF LOCAL HOUSING FINANCE AGENCIES, AND THE NATIONAL COMMUNITY DEVELOPMENT ASSOCIATION

Mr. Chairman and Members of the Subcommittee: The U. S. Conference of Mayors, the National Association of Counties together with its affiliate, the National Association for County Community and Economic Development, the Association of Local Housing Finance Agencies, and the National Community Development Association appreciate the opportunity to present our views on fiscal year 1998 appropriations for the Department of Housing and Urban Development, and in particular the two priority programs of local governments—Community Development Block Grants and HOME. Through this statement our organizations, composed of city and county government elected officials and practitioners, wish to articulate the critical importance of maintaining a continued federal commitment, in partnership with our members—the nation's local governments—in promoting neighborhood revitalization and expanding the supply of affordable housing in our nation's central cities, counties, small towns and rural areas.

At the outset, we wish to commend you, Mr. Chairman and members of the Subcommittee, Republicans and Democrats alike, for your continuing support for priority local government programs. This is evidenced by inclusion in the fiscal year 1997 appropriations act the same funding levels for CDBG and HOME as approved for fiscal year 1995 and 1996—$4.6 billion and $1.4 billion, respectively.

However, we also want to reiterate our deep concern over, and opposition to, the proliferation of set-asides within the CDBG program. For fiscal year 1997, $289.6 million is allotted for set-asides. Of that, $180 million is for programs unrelated to the basic CDBG program: Youthbuild ($30 million), public housing supportive services ($60 million), and lead-based paint abatement ($60 million), and public housing law enforcement ($20 million). The Administration's fiscal year 1998 budget also requests set-asides totaling $290 million. To the extent these programs deserve to be funded, they should be funded separately.

Making them set-asides has the effect of taking formula funds, which benefit many communities, and converting them into discretionary funds, which benefit a far fewer number of communities. In addition, the inclusion of unrelated set-asides such as these is what I refer to as the hidden cut in CDBG. Although the CDBG program has received level funding of $4.6 billion since fiscal year 1995, the actual amount of funding for local governments and states has declined by 4 percent, while the number of new formula grantees has increased by three percent. This increase in entitlement grantees, coupled with the steadily mounting set-asides, seriously reduces entitlement allocations. In fiscal year 1995, $4.6 billion in CDBG funds was allocated to 946 entitlement communities and 51 states and territories with approximately $90 million in total designated set-asides—those for Indians, Insular areas and Section 107 special purpose grants (none of which we object to). In fiscal year 1997, $4.6 billion in CDBG was allocated to 975 entitlement communities and 51 states and territories and with $289.6 million in total designated set-asides. Even without considering inflation, this on-going trend creates a steady, yet hidden decline in actual CDBG funding to jurisdictions. For example, from fiscal year 1995 to 1997, East St. Louis, IL, lost 8 percent, Los Angeles, CA, lost 5 percent, Cambridge, MA, lost 8 percent, and Westchester County, NY, lost 8 percent in CDBG funding.

As with CDBG there is the beginning of a trend toward set-asides in HOME. For fiscal year 1997, $15 million has been set-aside for housing counseling. The HOME program has also experienced an increase in the number of participating jurisdictions each year, spreading the funds even further. In addition, for fiscal year 1998 the Administration has recommended a cut in funding for HOME to $1.3 billion. We are, of course, strongly opposed to this cut.

Mr. Chairman: Due the hidden decline in CDBG and HOME funding over the past three years at "level funding," we urge the following funding levels for fiscal year 1998: $4.6 billion in formula funding to entitlement communities and states without any set-asides within this amount, and $1.5 billion for HOME.

Attached to this statement are the materials used for a Congressional briefing on the CDBG and HOME programs which our organizations and others held on March 20, 1997. We commend it to the Subcommittee's attention for the extensive information which it contains.

IMPACT OF CDBG

Celebrating its 23rd year, having been signed into law by President Gerald Ford in 1974, CDBG is the federal government's most successful domestic program. The CDBG program's success stems from its utility, i.e., providing cities and counties with an annual, predictable level of funding which can be used with maximum flexibility to address their unique neighborhood revitalization needs. Based on HUD's most recent annual report to Congress, between fiscal year 1993 and fiscal year 1996 an estimated 14–17 million households benefitted from the CDBG program. During that same period an estimated 114,799 jobs were created through CDBG-funded economic development activities. In fiscal year 1993, entitlement communities spent funds in the following manner: housing rehabilitation, assisting over 200,000 households (35.8 percent), public works and infrastructure (22.7 percent), planning, monitoring and program administration (14 percent), public services (12.8 percent), acquisition and clearance of property (7.3 percent), preventing or eliminating slums and blight (6 percent), and economic development (6 percent).

Again according to the HUD report, for every 10 percent of CDBG funds expended for direct assistance to individuals and households (two-thirds of CDBG funds) over 1 million persons and households are served, based on the fiscal year 1992 Grantee Performance Reports. Since the remaining one-third of funds benefit entire neighborhoods a per person benefit cannot be accurately calculated.

A two-year study of the CDBG program by the Urban Institute concludes that in its twenty-two years' existence the program has brought "* * * important contribution[s] to city community development, including demonstrated successes in achieving local neighborhood stabilization and revitalization objectives." The Urban Institute believes that in virtually every city, neighborhoods would have been ad-

versely affected had CDBG not been implemented. The Institute claims that "the CDBG program works most effectively when communities practiced concentrated investments, linked housing, economic development and social service spending, and invited citizen participation in neighborhood planning efforts." This strategy of comprehensive treatment of neighborhoods is greatly facilitated by the Administration's Consolidated Plan requirements. The study also found that CDBG programs clearly benefit those for whom the program was intended, low- and moderate-income persons and neighborhoods, and does so to a substantially greater extent than the minimum (70 percent) required by law. The Urban Institute correctly characterizes the program as the federal government's primary means to support local efforts in the stabilization and restoration of deteriorated neighborhoods.

IMPACT OF HOME

Like CDBG, the HOME program is producing very positive results in expanding the supply of affordable housing. Enacted as the centerpiece of the 1990 National Affordable Housing Act and signed into law by President Bush, the program was initially mired by many legislative provisions which thwarted its effective implementation. After a series of legislative changes in 1992, designed to facilitate effective implementation, and regulatory actions by former Secretary Cisneros and his staff, the program really took off in January 1993.

Since then the progress in using the funds, and the uses to which they are being put, is most impressive. In fact the House Subcommittee's report accompanying H.R. 3666, the fiscal year 1997 HUD appropriations bill stated: "This program provides resources to nonprofits to build affordable homes equitably and efficiently. Furthermore, the program is well monitored, making it possible to determine whether low- and moderate-income families are receiving the benefit of the assistance." We heartily agree.

According to HUD data, since HOME was created in 1990, it has helped to develop or rehabilitate over 230,000 affordable homes for low- and very-low income families. Ninety percent of the HOME funds used for rental housing must be targeted to families with incomes at or below 60 percent of the area median. The balance may assist those with incomes up to 80 percent of the median income. Actual targeting is deeper. The majority of HOME funds have been committed to housing that will be occupied by very low-income people and a substantial amount will assist families with incomes no greater than 30 percent of median. As of the end of January, 1997, 65 percent of all occupied HOME-assisted rental housing is rented to families with incomes at or below 30 percent of area median income.

HOME funds help low- and very-low income families realize the dream of homeownership by providing for construction and rehabilitation of housing as well as providing the downpayment and/or closing cost assistance in the form of second mortgages necessary to bridge the gap. Since 1990 HOME has assisted 68,900 homebuyers. All HOME funds used for homeownership must be targeted to households with incomes at or below 80 percent of area median. Again this targeting requirement is being exceeded. Thirty-two percent of homebuyers assisted with HOME funds have incomes at or below 50 percent of median income.

HOME is cost effective and provides the gap financing necessary to attract private loans and investments to projects. For each HOME dollar, $1.79 of private and other funds have been leveraged since the program's inception. This clearly illustrates the effective and judicious use of HOME funds by participating jurisdictions.

We also urge the Subcommittee to fully fund the Administration's request for renewal of expiring project-based and tenant-based Section 8 subsidy contracts, but not at the expense of CDBG and HOME funding. Failure to do so will put an estimated 4.4 million households at risk. At the same time we are urging the authorizing committees to formulate legislation which would permanently address this issue.

Mr. Chairman, local government officials believe that a strong federal role in housing and community development programs must continue. Since the Housing Act of 1937, Congress has enunciated, and repeated in subsequent housing acts, that, as a matter of national policy, the federal government has an obligation to assist states and local governments in providing decent, safe and sanitary housing for lower income households. Perhaps Congress said it best in a "Declaration of National Housing Policy" included in Section 2 of the Housing Act of 1949:

"The Congress hereby declares that the general welfare and security of the Nation, and the health and living standards of its people, require housing production and related community development sufficient to remedy the serious housing shortage, the elimination of substandard and other inadequate housing through the clearance of slums and blighted areas, and the realization as soon as feasible, of the goal of a decent home and suitable living environment for every American family * * *."

We submit to you that, while progress has been made toward this goal, it has not been fully achieved. The federal government must make a commitment to this national housing policy, backed up by the resources with which to continue the battle against neighborhood deterioration and a decaying housing stock.

Mr. Chairman, we look forward to working with you and the Subcommittee in adequately funding HUD's housing and community development programs.

---

PREPARED STATEMENT OF JACQUELINE JOHNSON, CHAIRPERSON, NATIONAL AMERICAN INDIAN HOUSING COUNCIL

I am submitting written testimony to your subcommittee to tell you of the critical need for funding from Congress for the new Indian Housing Block Grant Program. My name is Jacqueline L. Johnson and I am the Chairperson of the National American Indian Housing Council (NAIHC). I am also the Executive Director of the Tlingit-Haida Regional Housing Authority located in Juneau, Alaska. In addition, I am the Secretary of the Juneau Tlingit Haida Tribal Council, and a member of the Raven/Sockeye Clan. Kus'een yo xat duwasakwak, Lukaxadi a'y'a xat, Yeith hit dax nax satee Kagwaantaan yadi.

First, I want to thank the chairman and members of the subcommittee for their continued support of the Indian housing program. We are honored to provide the subcommittee with testimony about housing for Native Americans, who continue to be among the most impoverished people in the United States. NAIHC looks forward to working with the subcommittee to assure that together, we meet the housing needs of Native Americans.

As the subcommittee is aware, this is a historic time for Indian housing. The Native American Housing Assistance and Self-Determination Act (NAHASDA), passed last October, brings great changes to the way federal housing assistance will be delivered to tribes. We are excited about the change and the opportunities it brings, and ask the subcommittee to consider funding NAHASDA at a level that will ensure its success.

THE NATIVE AMERICAN HOUSING ASSISTANCE AND SELF-DETERMINATION ACT (NAHASDA)

Tribes and Indian housing authorities have long advocated for changes in the Indian housing program. The passage of NAHASDA represents the culmination of these efforts. NAHASDA allows for greater tribal control and flexibility. Under the existing program, Indian housing authorities have been forced to work within the confines of a program designed for urban areas. Through the years, we worked hard to make the program meet our rural needs and diverse cultures. While we have had some successes, the road has been difficult. With the passage of the NAHASDA, we can expand upon our successes and finally make significant movement towards our goal of providing safe, decent and sanitary housing for all eligible families. NAHASDA allows tribes the flexibility to build culturally sensitive homes that are tailored to their environments. It allows each tribal community to create their own housing programs—to manage their resources in ways that will best serve the unique needs of their people.

NAHASDA brings to tribes a new way to approach housing—one that will identify each communities' housing needs and goals through comprehensive housing planning. The comprehensive housing plans required under the Act will guide each communities' housing program and allow housing to be incorporated into all the other economic activities of the tribe. No longer will housing be a separate activity.

NAHASDA provides new opportunities for meeting our housing needs by combining public resources with private financing. The Act encourages partnerships with banks and financial institutions, allowing us to guarantee future financial resources to private lenders.

This is an exciting and challenging time for those of us who are dedicated to improving the housing conditions in Native American communities. We are eager to seize this opportunity and move forward.

In fact, I am proud to report that the Negotiated Rulemaking Committee, created to develop the regulations for the new Indian housing program under NAHASDA, recently completed its work. The Committee met the deadline it established, and wrote draft regulations for the Indian Housing Block Grant program which will be available for public comment in the next few weeks. We thank Congress for providing us with the opportunity to develop this new program. It has been an educational and challenging process.

Through negotiated rulemaking, the Committee was able to draft program regulations that: respect tribal sovereignty; provide HUD and tribes with the tools to monitor and oversee the program; direct, through the funding formula, resources to

tribes that are most in need; protect current residents and families through the continued operation and maintenance of existing housing units; and encourage private-public partnerships that allow tribes to leverage and guarantee financial resources.

I believe that the Committee has addressed many of the concerns of Congress, ensuring that accountability and responsibility is integrated into the regulations, while providing for local control and flexibility that meets the needs of low-income Native Americans. I am proud to report that tribal representatives and HUD participants were able to work together, to work out differences, and to produce regulations that will enable us to achieve our goals of decent, safe, sanitary housing.

THE ADMINISTRATION'S FISCAL YEAR 1998 BUDGET REQUEST

To meet the great promise and challenge of NAHASDA, it is essential that tribes and TDHE's receive a level of funding that allows them to meet the Act's objectives. While we recognize the national goal to balance the budget, the Administration's budget proposal falls far short of our need. It fails to provide funding at levels designed to ensure the success of the program. A new program that is under-funded—that fails to account for the recent changes in welfare reform—will be a program that has great potential, yet ultimately fails to give Native Americans a fair chance to achieve goals that other Americans take for granted.

NAIHC estimates the need for the Indian housing program to be approximately $850 million. This figure includes not only the costs of operating and maintaining the viability of the existing stock, but also the costs associated with implementing the Act and preparing for welfare reform. Additionally, it incorporates funding for the loan guarantee programs, Section 601 and Section 184, which are vital for addressing our housing needs.

While the Administration's proposal does not acknowledge that more tribes and TDHE's are now eligible to participate in the block grant program, HUD estimates that approximately 60 more tribes will be eligible under the Act. These are, in large part, federally recognized tribes that have not previously participated in the housing program and new federally recognized tribes. The increase in those who are now eligible for assistance must be budgeted for. In addition, the proposed appropriation fails to account for the effect of inflation, and funding remains at a constant level over the next five years. Each year, inflation will eat at our precious dollars and each year their value will decline. The result will be a cumulative decrease in funding annually.

Also, tribes and TDHE's need adequate dollars to carry out the additional responsibilities required by the Act. NAIHC estimates that tribes and TDHE's need $148 million to plan, manage, and administer their grants, as well as to undertake the necessary environmental reviews that are now the tribes' responsibility. Insufficient funding will hamper tribal and TDHE's efforts to manage these tasks which were previously funded by HUD.

There is also a factor that no one can accurately estimate and one in which housing is rarely mentioned when discussed—the impact of welfare reform. The Administration proposes programs that housing authorities will be able to use for creating jobs, linking welfare recipients to jobs, and leveraging funds to increase job opportunities. What happens when there are no jobs or when economies are so depressed that jobs cannot be created or sustained? Who pays the rent when welfare payments stop? How will tribes and TDHE's make up the difference? It is important that this subcommittee understands that welfare reform will hit us very hard. Unfortunately, the Administration's budget does not factor the impact of welfare reform into its request for funding the Indian housing block grant.

Under NAHASDA, tribes and TDHE's can form new partnerships with private lenders and financial institutions, using many of the financial tools available in the larger community. But under the Administration's proposal, the Loan Guarantee Program, Section 601, receives no funding. NAIHC estimates that Section 601 needs approximately $32 million in credit subsidy. This small investment could potentially leverage twelve times more in private housing funding, or approximately $400 million. The amount of credit subsidy requested is minor in comparison to the huge contribution it will bring to our economically distressed communities. I sincerely believe that without adequate funding for this program, we will never properly house Indian people. Section 601 is important because it helps us begin to achieve our goal of economic self-sufficiency. Without 601, we will remain solely dependent on decreasing federal dollars for which there are countless competing demands.

In addition, NAIHC is seeking to increase the funding for the Indian Housing Loan Guarantee Program (Section 184) from $3 to $6 million. This program has been extremely successful since its creation in 1992. Congress appropriated $3 million for funding in 1993. Each year appropriations for Section 184 are used, and the

demand is growing. HUD expects to commit the fiscal year 1997 appropriation for the Section 184 program months before the September 30 deadline. This program has allowed us to build houses on Indian land for the first time with private financing. With such great unmet housing needs, and the prospect of diminishing federal dollars, it makes sense to further encourage the participation of the private market.

Housing finance programs are essential for Indian reservations and Native communities in an era of declining federal housing dollars. They are indispensable tools that will help us move private financing into our communities, where few private lenders dare to venture.

We request that appropriations for NAHASDA funding lose their federal distinction for the purpose of leveraging those funds with state and local matching contributions and private investment, similar to the way funds under the Home Investment Partnerships Act are used. This will allow us to fully maximize our ability to bring private and other resources to our communities.

Additionally, we request that TDHE's be allowed to service public housing vouchers and receive the funding for their non-Indian families through the public housing appropriation. Currently, there are 4,174 Section 8 vouchers managed by Indian housing authorities. Although small compared to public housing, in many areas of the country, Indian housing authorities serve a substantial number of Indian and non-Indian families in this program. Providing funding for TDHE's to continue to serve non-Indians will allow these families to remain in their homes.

NAIHC recognizes the need to meet national budget priorities, and the pressure that the subcommittee is under to do so. However, NAIHC believes that if tribes and TDHE's are going to meet the housing needs of their communities, develop housing that is decent, safe and affordable, and create partnerships with the private sector, providing the level of funding requested is essential.

MAXIMIZING THE OPPORTUNITIES THAT NAHASDA BRINGS

As tribes and TDHE's make the transition from the existing program to the new program, technical assistance and training becomes especially important. As the only national organization representing Indian housing, NAIHC understands the importance of building the capacity and ability of tribes and TDHE's. Education is critical in preparing tribes and TDHE's for understanding the program, and preparing for its implementation. NAIHC strongly supports additional funds for technical assistance and training, directed not only to tribes and TDHE's, but also for HUD staff so that they are better able to understand their new role. Additionally, we ask that the subcommittee continue the direct appropriation of $1.5 million to NAIHC for the provision of technical assistance, training, and research activities to tribes and TDHE's. NAIHC has received funding in past years, and its TA and training programs have assisted IHA's (TDHE's) and tribes throughout Indian country.

NAIHC also asks this subcommittee to support the passage of a national financial institution, targeted to provide assistance to tribes in the development of tribal consortiums and the pooling of funds. Such services are critical to build the financial capacity and resources of tribes, and to address the lack of access to credit that exists in many tribal areas.

The success of the new Indian Housing Block Grant program rests on a partnership—a partnership between the federal government and tribes, where each fulfill their responsibilities to provide decent, safe and sanitary housing for all Native Americans. Your support of $850,000,000 will give us the opportunity to achieve these goals.

---

PREPARED STATEMENT OF AIMEE R. BERENSON, DIRECTOR OF GOVERNMENT AFFAIRS, AIDS ACTION COUNCIL

Good afternoon. My name is Aimee Berenson, and I am Director of Government Affairs for AIDS Action Council, the Washington voice of over 1,400 community-based AIDS service organizations across this nation and the people living with HIV/AIDS they serve. The work of AIDS Action Council is supported by our dues-paying members and individual donations. AIDS Action Council does not receive any federal funding.

I want to thank the members of this Subcommittee for the opportunity to testify here today on behalf of people living with HIV/AIDS and their families. We are at a time of great hope and enormous promise in this epidemic. As you probably know from recent media reports, last year, as a result in dramatic advances in the care and treatment of people living with AIDS, the number of people dying from AIDS decreased by 13 percent. But this epidemic is far from over. While the number of people dying from AIDS declined significantly last year, the number of people living

with AIDS did not. And tragically, not everyone living with AIDS is reaping the benefits of advances in care and treatments. The death rate for women with HIV disease actually increased by 3 percent last year, and death rates among people of color declined only nominally. These statistics are a poignant reminder that there are stark inequities in the ability to access the state-of-the-art health care that people with HIV/AIDS need to stay alive. AIDS continues to be the leading cause of death among American women and men between the ages of 25 and 44, cruelly depriving them of years of productivity. Worse still, every year 40,000 to 80,000 more Americans become infected with the human immunodeficiency virus (HIV), the virus that causes AIDS.

Stable housing has always been essential to preventing the early onset of illness and maintaining the quality of life for HIV-infected individuals and their families. In the past, the lack of stable housing has meant many people with HIV disease died prematurely, because without a stable place to live, they could not access the care services and life-sustaining treatments that could have prolonged their lives. Today, the hope of new advances in the care and treatment of HIV disease means that stable housing may not only prevent premature death; it may actually be the key to a long, healthy life. Some people have responded so well to new therapies that they have been able to go back to work after years on disability. Ultimately, stable housing—and the access to care it enables people to achieve—may not only prevent premature death; it may mean the difference between life and death altogether.

For the first time in the history of this epidemic, people living with HIV disease and their families have real cause for hope. Yet at the same time, they struggle with the challenge of how to realize that hope. Imagine the challenges that the costs of these new drugs therapies pose; imagine the challenges of finding the affordable, comprehensive state-of-the-art medical care and supportive services needed to benefit from the new drug therapies in the first place. Now imagine the challenges of trying to do either without affordable, stable housing. How do you choose between paying your doctor's bills or filling your prescriptions and paying your rent or mortgage? And what about those people who don't even have the pretense of such a choice, because they are already homeless?

The Housing Opportunities for People with AIDS (HOPWA) program is the heart of the federal housing response for people living with HIV/AIDS. By increasing fiscal year 1998 funding for HOPWA, Congress can help us ensure that no American living with HIV disease is denied care, treatment, even life itself, just because they do not have a stable place to live.

Ninety percent of HOPWA funds are distributed by formula grants to states and localities hardest-hit by the AIDS epidemic.[1] States and localities control the use of these funds, not HUD. Communities may use HOPWA funds to meet whatever housing needs they may have, from providing short-term supportive housing or rental assistance for low income persons with HIV/AIDS to rehabilitating existing housing units, building new community residences, or coordinating home care services. The remaining ten percent is awarded on a competitive basis for projects of national significance.

At any given time, one-third to one-half of all Americans with AIDS are either homeless or in imminent danger of losing their homes. And 60 percent of all people living with HIV/AIDS will face a housing crisis at some point during their illness, because they face illegal discrimination or because, as a result of lost wages and medical expenses, they become unable to pay their rent or mortgage. Moreover, a growing number of people with HIV/AIDS are already homeless when they become ill and find themselves shuffled between acute care hospitals, medically unsafe shelter facilities, and the streets, at an enormous cost to their health and to the taxpayers. Past studies by the Centers for Disease Control (CDC) found HIV infection rates of up to 21.4 percent in selected homeless populations; more recently, infection rates among the homeless in some urban areas are estimated to be as high as 50 percent.

Unfortunately, the number of people living with HIV/AIDS in a given jurisdiction who need housing is increasing disproportionately to the overall increase in AIDS cases in that jurisdiction. Moreover, because of the historical underfunding of the HOPWA program, the amount of housing provided has never been nearly sufficient to meet the true needs. And ironically, a number of AIDS housing providers across the country are reporting that as a result of the recent advances in care and treat-

[1] To qualify for a formula grant, a metropolitan statistical area (MSA) must have 1,500 cases of AIDS in a population in excess of 500,000 people as reported by the CDC; a state must have 1,500 cases outside of any qualifying MSA. Thus formula grants are awarded equitably, based on need as reflected by numbers of cases.

ment, the people currently being housed are living longer, so there is less turnover in existing housing programs, and the waiting lists for those programs are growing even more.

The housing crisis facing people living with HIV/AIDS exacts an enormous toll, personally and economically, on individuals, their families, and communities across this country. HOPWA dollars help lessen this toll. For example, studies have shown that at any given time, approximately 30 percent of people with HIV-disease in acute-care hospitals are there only because there is no other community-based residential alternative. An acute-care bed for an AIDS patient costs on average $1,085 a day. The cost of providing housing and services in a HOPWA-funded residential facility is between one-tenth and one-twentieth of that amount. HOPWA dollars reduce the use of emergency health care services by an estimated $47,000 per person per year.

HOPWA fills a need that has not been met by other federal housing programs. Many programs, like Section 8, have waiting lists that are, even today, much longer than the average lifespan of a person with AIDS. Other programs, like CDBG, fund a wide range of community and economic development activities far more politically popular on the local level than housing for people with AIDS. And many people with HIV/AIDS still have difficulty accessing HUD programs that serve people with disabilities generally, such as Section 811 or HOME, because of HUD's historic position that such programs cannot be used for "targeted" housing that meets the needs of people with particular disabilities, such as HIV/AIDS.

Without question, the HOPWA program is critically important to the thousands of people living with HIV/AIDS, their families, and their communities in states across the country, ranging from New Jersey and North Carolina to Florida and Mississippi; from Ohio and Wisconsin to Texas and California. In fiscal year 1997, 80 jurisdictions—53 metropolitan areas and 27 states—qualified for HOPWA formula grants, and HUD estimates that 10 new jurisdictions will qualify for fiscal year 1998. Yet the ability of the HOPWA program to respond to the growing housing crisis cities and states face in battling the AIDS epidemic has already been compromised by the fact that appropriations have not kept pace with the documented increases in need for their communities. In fact, appropriations for the HOPWA program have been below what is needed even to maintain existing HOPWA programs in some jurisdictions.

The President's fiscal year 1998 Budget Request for HOPWA seeks an 8.1 percent increase, to a total of $204 million. This increase, while below the $250 million we estimate is needed for fiscal year 1998, would at least ensure that cities and states across the country, and housing projects in your community and communities across this nation, can work to address the ever-increasing needs of their citizens with HIV/AIDS. HUD estimates that the increase in funding requested in the President's fiscal year 1998 Budget would provide housing and related services for an additional 2,836 individuals and families.[2]

This nation's investments in AIDS research and care have reaped enormous benefits. But if this Congress does not make a similar investment in HOPWA funding for fiscal year 1998, people with HIV/AIDS will not have the most basic thing they need to realize those benefits—namely, a roof over their heads. It is not only appropriate but imperative for the federal government to enable those cities and states hardest-hit by this epidemic to provide the housing needed, so that their citizens on the local level can share in the progress we are making in fighting this epidemic as a nation.

Without stable housing, we will continue to see people with HIV/AIDS dying prematurely, and perhaps unnecessarily, in hospital emergency rooms, in shelters, on the streets of our cities. It has been true in the past and is even truer today: homelessness kills people with AIDS.

We realize that there are enormous budgetary challenges facing us on the federal level, particularly with regard to the overall HUD budget. Our request of $250 million for HOPWA in fiscal year 1998 actually represents the amount that HUD estimated was needed for HOPWA in fiscal year 1996 to prevent drastic cuts in funding to many states and localities. Now more then ever, cities and states need this increased HOPWA funding, to ensure that this community-based, community-controlled program can respond to the growing AIDS housing crisis in their jurisdictions. On behalf of the many people living with HIV/AIDS in those jurisdictions, I ask you to remember that HOPWA dollars really do represent life or death.

---

[2] Attached is a chart prepared by HUD showing each state's combined total in MSA/state HOPWA formula funds for fiscal year 1996 and fiscal year 1997, and each state's estimated total for fiscal year 1998 (assuming the President's requested increase in fiscal year 1998 appropriations for HOPWA).

HOPWA has been the focus of my testimony here today because HOPWA is the only federally-sponsored housing program specifically designed to meet the acute housing crisis facing people with HIV/AIDS in those cities and states hardest-hit by the epidemic. But HOPWA alone cannot possibly meet the housing needs of all Americans with HIV/AIDS, especially those living in communities that do not qualify for HOPWA formula grants.

Thus many people with HIV/AIDS have relied on programs such as the McKinney Homeless Assistance Grants, Section 8 rental assistance (project and tenant-based), and Section 811.[3] We urge you to remember that programs such as these, which serve the homeless and people with disabilities, are programs that serve people living with HIV/AIDS. When we talk about the homeless, we are talking about people with AIDS; when we talk about people with disabilities, we are talking about people with AIDS. AIDS is a disease that disables and impoverishes people; at the same time, it is a disease which disproportionately affects people who are already poor and/or homeless.

Funding for the McKinney Homeless Assistance grants program is of particular importance for homeless people living with HIV/AIDS. Therefore, we urge you to increase funding for this program in fiscal year 1998 to at least the original fiscal year 1995 level of $1.12 billion. The growing number of homeless people and families, and the increasing rate of HIV-infection among the homeless, pose enormous challenges for communities across America. Without increased funding for the McKinney programs, cities and states will not only have to find the political will to address the complex needs of homeless people, but may have to divert scarce local resources and raise state and local taxes to do so.

We urge you to appropriate the funding needed to provide housing that can prevent premature deaths, improve the quality and duration of life, and enable thousands of Americans living with HIV disease and their families to share in the hope of new treatments. Funding for HOPWA and other housing programs serving homeless and vulnerable Americans must be increased for fiscal year 1998, so that communities across this nation have the resources they need to address the housing problems of their citizens.

Thank you for allowing me to testify before you today.

---

## PREPARED STATEMENT OF HAROLD L. PAZ, M.D., DEAN, UMDNJ-ROBERT WOOD JOHNSON MEDICAL SCHOOL

### OBJECTIVE STATEMENT

To meet the needs of children and their families' UMDNJ-Robert Wood Johnson Medical School (UMDNJ-RWJMS) seeks to create the Child Health Institute of New Jersey. We have received a planning grant from Johnson & Johnson toward the creation of an institute and we expect substantial support from the private sector.

The Child Health Institute of New Jersey will implement a set of programs, integrating: (a) genetics and environmental exposure; (b) social development and urban dynamics; and (c) the study of how disorders of these processes result in diseases expressed at life's different stages. This innovative and integrated scientific-clinical approach will foster understanding of diseases of childhood, maturity, and aging in terms of generic, environmental and developmental influences.

### BACKGROUND STATEMENT

The nation has embarked on a new initiative, "Healthy People 2000", announced by Secretary Louis W. Sullivan, MD in 1990. Child health comprises a prime goal, with an explicit focus on "lead poisoning, learning disorders, mental retardation * * * and emotional and behavioral problems" (DHHS Publication No (PHS) 91–5021). The state of New Jersey is in a unique position to assume a leadership role.

As we approach the 21st century, New Jersey faces unique challenges and opportunities in a healthcare environment in radical transition. Our state is the most densely populated, leads the country in the emerging suburbanization of America and is the heartland of the U.S. medical-pharmaceutical industry. The state also possesses some of the poorest urban environments in the nation. The impact of the decaying urban environment has enormous implications on human growth and development. The institute will examine not only the biological and chemical effects on childhood, but the effects of behavioral and societal influences as well. In many

---

[3] Because of the waiting list problems with Sec. 8 and HUD's interpretation of "disability" under Sec. 811 referenced earlier, gaining access to these two programs has often had to be done through set-asides within these programs for people with AIDS.

ways, these latter areas have been the focus of most legislative action, but little attention has been paid to the science which could provide the solutions to these problems. This Institute will, for the first time, integrate behavioral, social and biologic approaches in order to understand human development.

The Institute will be based in New Brunswick. In the last 30 years, New Brunswick has become the premier healthcare site in the state through the cooperative efforts of UMDNJ-Robert Wood Johnson Medical School and its affiliated hospitals, and the ongoing support of Johnson & Johnson and the Robert Wood Johnson Foundation. While unmet needs and unique biomedical opportunities characterize our state, New Jersey contains no university children's hospital, and no international center for the study of child health and development. The unique combination of need and opportunity signal a chance for New Jersey to capture a leadership position in child health. As a result, UMDNJ has made this issue a top priority and Robert Wood Johnson Medical School has received a planning grant from J&J to study the feasibility of developing an Institute for Child Health. In addition, we anticipate additional private support toward this goal.

The knowledge and technology to unravel the miracles of development, the biologic mechanisms that convert the one-celled fertilized ovum into a feeling, thinking, conscious individual are at hand. The Child Health Institute of New Jersey at UMDNJ-Robert Wood Johnson Medical School will implement a novel vision for the integrated study of development and its disorders. Our strategy explicitly recognizes that changing environmental conditions alter gene function during development, maturation and aging, necessitating study of the whole individual as well as the individual gene. The human child during development appears to be more sensitive to the impact of the environment, both chemical and social, than at any other period of life. Employing this approach, Institute scientists will study human growth and development and the emergence of cognition, emotion, consciousness and individuality. Since growth mechanisms are now known to govern function throughout life, abnormalities of development, maturity and aging will be characterized employing unique insights obtained during development.

Ongoing insight into mechanisms regulating growth and development holds the promise of altering medical approaches to recovery of function after illness and injury. For example, recent discoveries at UMDNJ-RWJMS and elsewhere now indicate that brain nerve cell division is governed by special growth factors in utero. These factors can be used in the adult to accomplish a feat long thought impossible: nerve cells can be regenerated. This striking discovery points the way to regrowth and recovery of function after stroke, head and spinal trauma, and Alzheimer's and Parkinson's diseases. Parallel discoveries in other areas of developmental biology suggest that a variety of tissues, including skin, bone and blood vessels, should now be regarded as renewable resources. These and related findings now prompt a thoroughgoing reevaluation of the entire process of aging. The new Institute is designed to pursue these revolutionary findings and forge this new approach to medicine.

The faculty at UMDNJ-Robert Wood Johnson Medical School provide the academic, research, patient care and community service activities for the two New Brunswick hospitals, Robert Wood Johnson University Hospital and St. Peter's Medical Center. The new Institute will enable the medical school to continue this leadership role and become a statewide and national resource for the cutting edge issue of childhood development. Further, the new Institute will link and enhance the studies being conducted at other UMDNJ-Robert Wood Johnson Medical School centers of research, all of which pursue development-related studies. For example, the Cancer Institute of New Jersey (CINJ) studies disordered cell growth; the Center for Advanced Biotechnology and Medicine (CABM) characterizes gene structure and function; the Environmental and Occupational Health Sciences Institute (EOHSI) delineates environmental influences on normal and disordered function; the Institute for the Study of Child Development in the Pediatrics Department studies basic processes related cognitive, emotional, and social development in children; and the core Transgenic and Gene Targeting Facility defines how abnormal genes derange development. The new Institute, formally charged with defining developmental mechanisms, will enhance developmental programs at these and other centers in New Jersey and throughout the nation.

## ACTION NEEDED

The development of an institute that explicitly recognizes these developmental issues will be necessary to meet national and state needs. This Institute will pursue interrelated programs, designed to integrate fundamental studies at the molecular genetic, cellular and systems levels with whole organism investigations, in the con-

text of child development. The programs are mutually supportive, and each will pursue problems of clinical and basic relevance.

In addition to the primary focus on scientific discovery, the Institute will educate the next generation of developmental biologists and physician-scientists in the emerging field of reproductive health, growth and development. An integral component of the Institute scientific enterprise will be the intensive exposure of students of varying seniority to pioneering research; undergraduates, graduate students, post-doctoral fellows, clinical residents, subspecialty fellows, scientific personnel from regional pharmaceutical companies, visiting senior scientists and physicians pursuing continuing education will be afforded the opportunity to participate in cutting-edge developmental science. We anticipate that New Jersey will rapidly emerge as a center for learning the new basic and clinical developmental biology, as well as a center for advanced developmental research.

Environmental health science and policy has been driven by cancer concerns in adults, however recent information from animal and human studies indicate that the developing mammal and the reproductive process can be effected at lower levels of environmental chemicals than that required to produce many adult cancers and the effect may be more general than a slight increase in cancer rate. An excellent example would be the human in utero can experience apparent permanent brain dysfunction when the mother is exposed to select suspected human carcinogens such as polychlorinated biphenyls while the mother demonstrates no effects including cancer. In addition the consequences for the individual and society of children developing life long brain dysfunction is greater than having a slight increase in the cancer rates in adults.

Altered reproductive capacity also greatly effects the individual and society. There are ample examples of how species have almost been eliminated by having environmental chemicals alter their reproductive capacity, and recent evidence indicates that human reproductive capacity is also being altered by environmental chemicals. An example would be couples who have been exposed to high levels of dioxin have a decrease in the ratio of male to female offspring, even to the point that if the couple has dioxin serum concentrations above a certain level only girls will be born to the couple. It is these and other examples of developmental and reproductive environmentally induced adverse effects that have created this national mandate for child and reproductive environmental health initiatives.

THE REQUEST

The Child Health Institute seeks a $10 Million planning grant to link the current programs at UMDNJ-Robert Wood Johnson Medical School to the hospital-based research in childhood development. As noted above, the medical school has already received support from J&J for the Institute and expects continued private support.

An initial allocation of $1.5 Million is sought in fiscal year 1998 to provide direct support for pilot studies on behavioral, social, genetic and cellular influences on development. This innovative and integrated scientific-clinical approach will foster understanding of diseases of childhood, maturity, and aging in terms of genetic, environmental and developmental influences.

---

## PREPARED STATEMENT FROM THE CITY OF NEWARK, NJ

Newark, New Jersey is a city of great contrasts and great promise. Our City is home to one of the fastest growing and convenient international airports in the nation, which is easily accessible to an unparalleled network of sea, rail and highway connections. Newark is also home to five institutions of higher learning, ranging from a fine community college to two law schools and a medical school. The park system of the city is another important component of Newark's value as a commercial, educational, and cultural hub of northern New Jersey.

Weequahic Park is a 311-acre facility located in a densely populated mostly low/moderate income area of Newark, NJ, the Nation's third oldest city. The major areas of the park are (1) several playing fields, (2) a 72-acre lake, (3) playgrounds, (4) tennis courts, (5) picnic area, (6) paddleball/handball courts, (7) trails, (8) a wide variety of open space, and (9) an 18-hole golf course, one of the few urban golf courses in the nation. Weequahic Park was designed by Frederick Law Olmstead in the 1850's and is the second largest park in the Essex County Park System, the oldest park system in the United States.

The park is within Newark's Enterprise Community boundaries and borders on Frelinghuysen Avenue which takes its name from the long distinguished New Jersey family of Congressman Rodney P. Frelinghuysen. Further, the cities of Newark

and Elizabeth boundary lines were established within Weequahic Park, then Waverly Fair Grounds, in 1668, two years after Newark became a city.

Over the past two decades or more, Essex County, the owner of the park, substantially reduced its maintenance support, and as a result, every aspect of this once-splendid park fell into substantial disrepair. As this former "anchor" began to die, so did key elements of the surrounding community.

In 1992, a group of park users came together to form Weequahic Park Association, Inc. (WPA), which is modeled after and received a generous amount of support from the highly successful Central Park Conservancy in New York City. The community-based people working effectively with the management team, has been the key to WPA's success to-date, i.e. grass roots people do grass roots work, and professionals do the professional work. In order to supplement the resources provided by Essex County for use in Weequahic Park, and to play a hands-on management role, WPA formally entered into a partnership agreement with the county in 1995.

Also, WPA participated in the city of Newark's last Empowerment Zone application submission, as one of eight (8) "area coordinators."

Following are some of the key accomplishments of WPA since 1992. It should be noted that these accomplishments were made without an administrative budget. Our estimate of the investment made in Weequahic Park associated with WPA's accomplishments (including "sweat-equity" and "in-kind contributions") is in excess of $5 million and growing.

WPA's Accomplishments:

—Developed organizational structure
—Articulated key goals and objectives
—Recruited management team
—Incorporated and secured federal tax-exemption
—Negotiated partnership agreement with Essex County
—Planned and managed two Labor Day weekend festivals
—Functioned as Empowerment Zone "Area Coordinator"
—Conducted general park management planning
—Conducted park clean-up projects
—Collaborated with international, national, and local private entities to partner with WPA on specific park projects
—Developed Foundation Board
—Developed proposal to do a masterplan study
—Requested and received proposals from architects/engineers for participation in the masterplan study
—New roadways throughout the park
—Two state-of-the-art playgrounds
—Restoration of fieldhouse/visitors' center
—Convened WPA meetings in various properties surrounding the park
—Caused lake to be treated and stocked with fish
—Submitted several projects (with budgets) to the county for funding
—30 new park "awareness signs" are being installed
—Eight WPA members scheduled for summer employment
—Major foundation to undertake entranceway beautification project

WPA strongly feels, and we concur, that they are at the point of reaching "critical mass" in their development. The president of WPA, Wilbur J. McNeil, has made such a positive impression on the county of Essex that they have appointed him to a county committee to make recreational policy.

The most immediate WPA projects are to (1) continue showing physical improvement within and outside the park and thereby attract and involve more indigenous community participation, (2) continue to build the management team, (3) attract more local institutions (e.g. local school district, hospitals, churches, etc.) to have their constituents to use the park consistent with their goals and objectives, (4) raise funds and undertake the masterplan study, (5) raise funds to implement the masterplan study thereby upgrading the quality of open space with both passive and active recreational opportunities within Newark, (6) provide employment and economic opportunities within and around the park for members of the community, and (7) reduce crime.

An appropriation of $3.5 million is hereby requested to accomplish a broad range of initiatives, including the completion of the masterplan, park maintenance above the level currently provided by Essex County, the upgrading of the lake in order to return it to a state usable for boating and fishing and the restoration of trails, landscaping and horticultural features. The masterplan will include a fundraising component, to involve the private sector and foundations in the continued restoration of this historic and invaluable urban asset.

The redevelopment of former railyard into an integrated part of an airport monorail system is the next project for which Newark is requesting funding. In close proximity to Newark International Airport, the City is proposing two important and distinct projects. The Port Authority of New York and New Jersey has just completed the first phase of an airport monorail, which, in its second phase, will cross U.S. Route 1 and connect to a new stop on the Northeast Corridor rail line. The location of this station is an under-utilized site of approximately 100 acres known as Waverly Yards. A former railyard, The City of Newark now owns much of this property, and wishes to develop it to its full potential. To do so, several critical infrastructure improvements must be accomplished.

First, there is currently only one road leading into the site; right-of-way acquisition through property owned by existing businesses and roadway construction is necessary for appropriate accessibility. Secondly, some of the area will require environmental remediation before facility construction can take place. Finally, basic site services, such as power, water, and communication lines need to be brought into the location. Site clearance and acquisition of several parcels from private owners will complete a building site of unparalleled attractiveness. The City proposes to locate an International Trade Center, which is currently in a study and preliminary design phase, on the site. Private developers will have the opportunity to purchase or lease a portion of the property for construction of other complementary facilities.

It has been estimated that activity on this site will ultimately generate hundreds of jobs in the trade, hospitality, convention and transportation industries. We are requesting that this committee make an appropriation of $6 million to help us reach our long-range goals for the Waverly Yards, to enable the generation of job and economic development opportunities for Newark's residents, and create needed enhancements to a regional transportation center.

Only a mile or two away from Waverly Yards lies an area in need of redevelopment which could have a tremendous impact on the economic well-being of our City. There is an inventory of dozens of factory and warehouse buildings which have become under-utilized, even abandoned. Some of them are city-owned as a result of tax foreclosures, many others have simply been closed by their owners. Thousands of manufacturing and shipping jobs have been lost in the Frelinghuysen Avenue industrial corridor. Yet Port Newark, adjacent to the Airport, is the East Coast's busiest container port. It generates millions of dollars in the businesses of processing, packing and distribution. Conversely, Newark is home to a large exporting community, which makes use of our key position on the transportation network.

The City is proposing a project which would provide supplemental funds to retrofit under-utilized buildings to enable them to be reused by these industries. An appropriation of $3 million to launch a pilot program would allow us to begin a process of returning these facilities to the tax rolls, and returning our population to work. The additional jobs that would be generated in the distribution industry will serve to create family incomes, which will in turn create retail demand in Newark. The plentiful and competitively priced labor force within the City in general, and our Enterprise Community in particular, will provide a ready supply of employees for operations in the types of industries we need to keep and expand.

In addition to the aforementioned initiatives, we are also aware that the University of Medicine and Dentistry of New Jersey has submitted testimony to you regarding an International Center for Public Health initiative to be located in the University Heights Science Park in Newark. We strongly support and endorse this initiative, and are enclosing a copy of this testimony as an attachment to our testimony.

Mr. Chairman, the City of Newark has come before you today to ask for help in changing the situation in Newark: to ask for help in obtaining funding for projects that will create long-term economic opportunity for people who currently have none * * * to ask for help in presenting the chance for some of Newark's currently unemployed population to earn a decent salary through which a family can be supported. Thank you for your time and consideration

---

## PREPARED STATEMENT OF THE UNIVERSITY OF TULSA

During the 1920's and 1930's the Kendall-Whittier area was at the eastern edge of Tulsa along with the University of Tulsa. It had its own "downtown" business center located along Lewis Avenue between Third and Archer Streets. The neighborhood was added to as late as the 1940's and 1950's when later parts of the Daniels Addition were built. Throughout the entire period the University of Tulsa was expanding and during the 1960's small apartment complexes were built to the west of the campus for students and other new residents.

Since then, Tulsa has grown far to the east and southeast and the neighborhood and its people have aged. Retail, industrial enterprises, and major highways have encroached on its formerly quiet residential streets. Real estate entrepreneurs placed higher density apartments where houses once stood. During the economic downturn of the 1980's, apartment occupancy and rents fell throughout the city and older marginal areas such as Kendall-Whittier became less competitive and fell victim to more transient residents and the poor. These new residents fed a perception of neighborhood decline which became fact because owner occupancy and reinvestment were discouraged. More modern and suburban retail centers drew business away from Whittier Square which then began to lease to more marginal retail and adult entertainment businesses. The schools in the area aged and student populations dropped. Crime, primarily drugs and prostitution, became rampant and further destabilized the neighborhood such that the neighborhood began a very effective law enforcement advocacy during the late 1980's. Building aging, a lack of maintenance and depressed rental incomes caused considerable visual and structural blight. Yet the neighborhood is a key midtown residential and business area with significant pockets of good housing and important institutions such as Hillcrest Hospital and the University of Tulsa.

The University, churches, and businesses of the neighborhood banded together to do what had never been done before in Tulsa. They contributed 50 percent of the cost to produce a neighborhood plan and challenged the city to match it. The city did match the funds and a neighborhood plan was produced to guide neighborhood growth.

The Kendall-Whittier Neighborhood Masterplan and Urban Renewal plan that resulted from the planning effort identified as its top priority the development of a new elementary school to replace two of the oldest elementary schools in Tulsa Public Schools (Whittier and Kendall Schools). In conjunction with the new park, the development of the new elementary school will do more for the regeneration of the neighborhood than all other projects combined. In addition, the development of the elementary school and park will remove blight, remove habitat for criminal elements, and improve the neighborhood's landscaping. Other elements in the plan include the expansion and improvement of the University of Tulsa campus, which is adjacent to the new school and park site, and the relocation of a public library, post office, and fire station along with other improvements to enhance Whittier Square, the oldest business district in Tulsa outside of downtown.

The University is key to the long-term success of the plan, acquiring and developing lands immediately to the present campus, and making significant new contributions to the cultural, educational, and economic health of the neighborhood, city and state—including playing a central role in the development of a new elementary "school of the future," cited in the planning report as likely to "do more for urban regeneration in the Kendall-Whittier Neighborhood than all of the other projects combined."

Acquisition, relocation, and clearance has been underway for five years now to develop a twenty-five acre site for the new school and park from the rear property line between 4th Street and 4th Place on the north to 5th Place on the south and from Atlanta Avenue on the west to Columbia Avenue on the east. To date, $2,794,658 of City of Tulsa Sales Tax funds, $1,155,000 of proceeds from the sale of property, and $2,000,000 of Special Purpose HUD Grants have been dedicated or used for acquisition, relocation, and clearance for the new school and park site. For street demolition, utility relocation, park construction, and project architecture, engineering, and administration, $500,000 of City of Tulsa Sales Tax funds and $250,000 of Special Purpose HUD Grants have been dedicated or used. Tulsa Public Schools will spend $8,000,000 from a bond issue passed in October 1996 to build the new Kendall-Whittier Elementary School. To complete the school and park project, an additional $1,500,000 is needed for acquisition, relocation, and clearance.

Accordingly, the project has withstood two thorough reviews and has been found to be entirely consistent with HUD laws and regulations. It represents a true public-private partnership, and a partnership and coalition among governmental entities. The University, the City, and the School District have made commitments totaling over $20 million. The University of Tulsa alone has already committed and raised $8 million; the City has expended significant funds, and has pledged City sales tax revenues toward the plan.

In keeping with its own academic strategic plan, the University would cooperate with the Tulsa Public Schools to develop the merged Kendall-Whittier schools as a model school in math-science education. This effort would accord with the University's continuing development to regional and national eminence of its undergraduate and graduate programs in math-science education, and would simultaneously benefit both the University and public education.

We are respectfully requesting a grant for $1,500,000 to complete the acquisition, relocation, and clearance for the school and park site. After two years and two failed attempts to pass bond issues, Tulsa Public Schools has passed a bond issue and will begin construction on the new Kendell-Whittier School in May 1997. They expect to complete construction and to be able to open for classes in August 1998. The school and park are an integrated site project. The school must have the park site to meet State of Oklahoma certification requirements. While the Tulsa Development Authority and Tulsa Parks Department will begin construction on Phase I of the Park and will complete it by October 1997, the acquisition and clearance of the remaining parcels must occur to finish the park site to allow the school to be certified. No local funds can be identified for the completion of site acquisition. It will be several years before the City can go back for a bond issue. In the meantime, the school needs to be open.

We thank the Subcommittee for its hard work and hope that you will give our project request your highest consideration.

---

PREPARED STATEMENT BY LYNNE P. BROWN, ASSOCIATE VICE PRESIDENT FOR GOVERNMENT AND COMMUNITY RELATIONS, NEW YORK UNIVERSITY CENTER FOR COGNITION, LEARNING, EMOTION AND MEMORY

Research into cognition, learning, emotion, and memory can help educators, physicians, and other health care givers, policymakers, and the general public by enhancing our understanding of normal brain development as well as the many disabilities, disorders, and diseases that erode our ability to learn and think, to remember, and to emote appropriately.

New York University is seeking $10.5 million over five years to establish at its Washington Square campus a Center for Cognition, Learning, Emotion and Memory. The program will draw on existing research strengths in the fields of neural science, biology and chemistry, psychology, computer science, and linguistics to push the frontiers of our understanding of how the brain functions, and how we learn.

Such exploration into the fundamental neurobiological mechanisms of the nervous system has broad implications for human behavior and decision making as well as direct applicability to early childhood development, language acquisition, teaching methods, computer science and technology development for education, the diagnosis and treatment of mental and memory disorders, and specialized training for stressful occupation.

COGNITION, LEARNING, EMOTION AND MEMORY STUDIES AT NYU (CLEM)

New York University is poised to become a premier center for biological studies of the acquisition, storage, processing and retrieval of information in the nervous system.

To be housed at NYU's Washington Square Campus within the Center for Neural Science, the new Center will capitalize on the university's expertise in a wide range of related fields that encompass our computer scientists who use MRI imaging for research into normal and pathological mental processes in humans, our vision scientists who are exploring the input of vision to learning and memory, our physical scientists producing magnetic measurements of brain function with a focus on the decay of memories, our linguists studying the relation of language and the mind, and our psychiatrists conducting clinical studies of patients with nervous system disorders.

The New York University Program in Cognition, Learning, Emotion and Memory (CLEM) focuses on research and training in the fundamental neurobiological mechanisms that underlie learning and memory—the acquisition and storage of information in the nervous system. Current studies by the faculty at NYU are determining why fear can facilitate memory; how memory can be enhanced; what conditions facilitate long-term and short-term memory; and where in the brain all these memories and processed and stored. The research capacity of this Center capitalizes on our expertise in physiology, neuroanatomy, and behavioral studies, and builds on active studies that range from the mental coding and representation of memory to the molecular foundations of the neural processes underlying emotional memories. Our faculty use electrophysiological and neuroanatomical techniques to study the organization of memory in the medial temporal lobe. Together these researchers bring substantial strength in psychological testing, computational sophistication, advanced tissues staining and electrical probes, and humane animal conditioning. These core faculty are well recognized by their peers and have a solid track record of sustained research funding from federal agencies and private foundations: total costs awarded and committed for their research for full project periods from all sources presently

total $7 million. Additional faculty are being recruited in areas of specialization that include: the cellular and molecular mechanisms operative in neural systems that make emotional memory possible, neurophysiological studies of memory in non-human primates, computational modeling of memory, and neuropsychological and imaging research on normal and pathological human memory.

Colleagues in the Biology Department are doing related work in the molecular basis of development and learning. Given the important input of vision to learning and memory, the Center has strong links with the many vision scientists based in the Psychology Department who work on directly related topics that include form, color, and depth perception, memory and psycholinguistics. Colleagues in behavioral science study learning and motivation, memory and aging. Physical scientists explore the magnetic measurement of brain function, with a focus on the decay of memories. CLEM also shares research interests with colleagues in the Linguistics Department, who study the relation of language and the mind.

Research linkages extend to computational vision studies, now centered in NYU's Sloan Program in Theoretical Neurobiology. The Sloan Program works closely with computer scientists at our Courant Institute on Mathematical Science, with colleagues at the Medical Center in Psychiatry, who use MRI imaging for research into normal and pathological mental processes in humans, and in Neurobiology, who are conducting clinical studies of patients with nervous disorders, especially memory disorders.

What is unique and exciting about the establishment of such a comprehensive center at NYU is the opportunity to tap into and coordinate this rich multidisciplinary array of talent to conduct pioneering research into how the brain works. In this, the "Decade of the Brain," NYU is strategically positioned to be a leader.

### EARLY CHILDHOOD AND EDUCATION

Research into the learning process as it relates to attention and retention clearly holds important implications for early childhood development. Although most of a person's brain development is completed by birth, the first few years of life are critically important in spurring intellectual development. For example, research has already shown that in their early years, children need human stimulation, such as playing and talking, to develop the ability to learn.

With more immigrant children in schools, language development is another crucial area of study. If a child's brain were more receptive to acquiring sounds during the first few months of life, and language in the first few years of life, then students may learn a second language more quickly if taught in the lower grades instead of waiting for high school.

In the midst of a national debate on education reform, thousands of education innovations are being considered without the advantage of a fundamental understanding of the learning process. CLEM researchers, coupled with educational psychologists, can contribute to a better understanding of how parents can stimulate their children's cognitive growth, how children learn at different stages and use different styles, how educators can accommodate those styles, and how educational technology can be harnessed to increase retention and memory.

At NYU, these efforts will be enhanced by our scholars and research conducted in our School of Education and our New York State-supported Center for Advanced Technology.

### COMPUTER SCIENCE AND TECHNOLOGY DEVELOPMENT

As we refine our knowledge of how the brain acquires, processes, retains and retrieves information and images, we will also be able to improve the design, development and utilization of computer science and technology. As we reach a better understanding of how children learn, we can more effectively harness computer technology in the service of education.

At NYU, this effort is enhanced by the presence of our New York State-supported Center for Digital Multimedia, Publishing and Education, which brings together educators, laboratory scientists and software designers who explore how interactive multimedia technologies enhance learning and develop prototype teaching models.

### SPECIALIZED TRAINING

Research into how cognition and emotion interact can have applicability to other diverse areas of interest including retraining of adult workers, job performance and specialized training for high risk or stressful jobs such as military service and emergency rescue work.

## PREPARED STATEMENT OF MICHAEL WEINSTEIN, PRESIDENT, AIDS HEALTHCARE FOUNDATION

### SKILLED NURSING NEED RESIDENTIAL CARE FACILITIES

Mr. Chairman and Members of the subcommittee: The AIDS Healthcare Foundation (AHF) is a leader in HIV medicine. It has distinguished itself by detecting trends and taking action, particularly when emerging patterns of the disease have a major impact on the quality and delivery of care. This philosophy permeates its outpatient healthcare clinics as well as its nursing facilities (houses). AHF is engaged in the transition from exclusively hospice care to adding skilled nursing care at the houses. Presently, over 60 percent of the 50 beds operated by AHF are skilled nursing/step down care (aggressive treatment) beds under CLHF (Congregate Living Health Facilities) licensure. About 40 percent are hospice (palliative) beds. A year ago 100 percent of the beds were hospice care. AHF will be re-opening Chris Brownlie House, its third facility, in early May, 1997. We expect an even higher ratio of residents at Brownlie housed under the CLHF/Skilled Nursing Need program. The houses are strategically located in three of the major HIV/AIDS epicenters: Downtown, West Hollywood and South Central Los Angeles. The demographics in these areas represent a mixture of ethnic, gender, sexual orientation, drug users, socio-economic, cultural and linguistic diversity.

AHF started to make the transition from exclusive hospice to adding skilled nursing care over two years ago. Hospice does not attempt to "cure" the underlying disease. Instead, it is designed to relieve the symptoms and pain and allow the disease to follow its normal course. In HIV, however, aggressive anti-viral therapy is many times the best way to provide palliative care, as it can enhance the quality of life. For instance, AZT is considered aggressive therapy as it is anti-retroviral. It is also one of the most effective drugs that penetrate the central nervous system and therefore it is utilized to ameliorate dementia and relieve symptoms. What we started to see over two years ago was that some residents would get better and were ready to be discharged but did not have appropriate places to go; with their chronic condition they were too healthy to go to an acute hospital kind of setting but too fragile and still in need of skilled nursing care for a board and care facility. They needed a sub-acute/intermediary type of program that would handle their non-acute but chronic condition. The choice was between expensive hospitalization or board and care living arrangements. The first choice was too intensive and the second unprepared to handle this level of care. Many times individuals would be released to residential facilities, home shelters, or previous home situations regardless of availability of home support. This resulted in their return to the hospices in much worse shape than when they had left. Their situation went from a stabilized chronic condition to that of recurrent acute episodes requiring either hospitalization or skilled nursing.

AHF formalized its intermediary/skilled nursing care program in May, 1996 to better serve this growing but unattended population. These individuals must show a skilled nursing need and have an estimated life expectancy of five years or less. They may need skilled nursing intervention such as but not limited to those listed in Attachment A. Once these individuals are stabilized and move from an acute episode to a relieved or a manageable or chronic status, they are moved to an appropriate level of care within or outside the AHF system of care when available. Many of these individuals are referred from among 3,000 patients presently managed through AHF's outpatient healthcare centers. The need has shifted from hospice to skilled nursing need. However, the funding sources have not followed this shift.

In addition to its intermediary/skilled nursing care program, AHF is spearheading at its houses a drug regimen adherence program, under its CLHF licensure, targeted to the homeless, drug addicts, and patients experiencing severe reactions to "cocktail treatment." These individuals need an inpatient, out-of-home protective living arrangement. They need observation given that the level of professional care precludes treatment in a home environment due to lack of (home) care giver support. AHF has developed multi-disciplinary protocols integrating medicine and the psychosocial fields. These protocols include the integrated work of physicians, nurses, social workers, administrators, spiritual counselors, activities coordinators and volunteers.

The consequence of either not starting combination therapy or starting without the appropriate guidance and support could be disastrous for the individual and other individuals they might have an HIV high risk involvement with. There is a tremendous fear among health care providers that individuals who have false starts with anti-retroviral combination therapy may develop a resistant strain of the virus, which will render current therapies impotent. Furthermore, this strain may be di-

rectly passed on to an HIV negative person in the usual transmission modes of bodily fluid exchanges such as semen, mother's milk, or blood. This newly infected person will also be unresponsive to existing anti-retroviral therapy. Some providers throughout the nation are beginning to ration and deny these medicines to individuals they feel will not follow this highly choreographed therapy. Instead of writing-off these individuals who have issues with compliance and depriving them of these life-saving medicines, we want to provide an effective program that can start them off and keep them on track with their new drug regimen.

AHF wants to enhance this model and use it as a demonstration project for replication in other areas of the country. Some needed upgrades include augmented staff training to keep up with the fast developments in HIV medical therapy, facility upgrades to diversify funding opportunities and qualify for Medicare certification, and equipment enhancement to address the multiple needs of this population.

The intent of the AHF Houses program is to medically rehabilitate individuals who are able to go back to a less intense level of care or the labor market once they have gone through either the skilled nursing and/or the drug adherence programs. AHF believes that a relatively small amount of transition funds will go a long way in making this program stable and financially feasible once some basic infrastructure is in place.

*Facility Upgrade*

Some structural and infrastructure upgrade will allow the houses to meet code for Medicare certification and allow the program to diversify its sources of income. Some of these changes include, but are not limited to: installing and maintaining generators (for self-sufficient power); expanding residents' room doors; renovating and expanding nurses' stations; installing piped oxygen systems; developing an occupational and physical rehabilitation area; purchasing audio/visual equipment for patient and staff training and education; and purchasing therapy equipment and furnishings. The estimated amount needed for facility and infrastructure upgrade totals $1,560,000.

*Staffing*

Given the pace of HIV treatment therapy, it is crucial not only to have an upgraded facility that meets the needs of licensing and payor source agencies, but also the latest training and knowledge. With the introduction of protease inhibitors, the field of HIV became more complex than ever. The advent of a newer generation of drugs and assessment assays ranging from viral load measurement to tests detecting viral resistance to a particular drug by genotyping, will only increase demand for provider sophistication. It is a challenge to organize all this knowledge and create a systematic program that leads to effective training and development. An organized team of staff members solely dedicated to this task of on-going training and development is crucial for the success of this program. These individuals will also collect and categorize the body of knowledge gained through the planning, implementation and evolution of this program. This information will be of tremendous value to institutions throughout the United States. This component is estimated to cost $155,000.

AHF is soliciting transitional funds to upgrade its facilities and for program development. Once established, the program should be self-sufficient, as it will allow the houses' programs to access a variety of funding sources. The time frame for a complete transition is estimated to be two years.

The following is an approximate breakdown of AHF's three-site operational budget.

| | Chris Brownlie house | Carl Bean house | Linn house |
|---|---|---|---|
| 1989 | $2,000,000 | ..... | ..... |
| 1990 | 2,100,000 | ..... | ..... |
| 1991 | 2,200,000 | ..... | ..... |
| 1992 | 2,400,000 | $1,000,000 | ..... |
| 1993 | 2,500,000 | 2,600,000 | ..... |
| 1994 | 2,600,000 | 2,700,000 | ..... |
| 1995 | 2,750,000 | 2,700,000 | ..... |
| 1996 | 2,750,000 | 2,800,000 | $1,800,000 |
| 1997 | [1] 1,200,000 | 2,800,000 | 2,700,000 |

[1] Reopened as 15 bed facility.

The sources of funding for the houses are diverse. Most of this funding has been secured for hospice, and not necessarily for CLHF/Skilled Nursing programs. A good portion of CLHF care is currently uncompensated, but funds could be accessed by upgrading programs and facilities.

| | *Percentage* |
|---|---|
| MediCal, private insurers, state grant | 45 |
| Local, Los Angeles County government | 25 |
| Ryan White Care Act, Federal | 10 |
| Private fundraising, Foundations and Corporate giving | 10 |
| | 100 |

AHF has been able to secure state bond, city and county government funds for building, renovations and equipment needs.

| | Brownlie house | Bean house | Linn house |
|---|---|---|---|
| State Bonds—Construction | $700,000 | $5,500,000 | $3,500,000 |
| City/County—Construction and Equipment | 200,000 | 750,000 | 186,000 |

The following budget is an estimate of the resources needed to make this program financially viable. We expect AHF to secure a diverse array of funding sources once its programs and facilities are upgraded.

| | |
|---|---|
| Facility upgrades: | |
| Renovation and expansion of Nurses' stations ($40K×3 facilities) | $120,000 |
| Widening (50 doors × $2,000 per door) | 100,000 |
| Inside stairs for better accessibility | 40,000 |
| Conference/education rooms ($45K×2) | $90,000 |
| Subtotal | 350,000 |
| Infrastructure and equipment: | |
| Upgrading and/or installing call system ($30K×3) | 90,000 |
| Installation and maintenance of generators ($50K×2) | 100,000 |
| Occupational rehabilitation room and equipment ($90K×3) | 270,000 |
| Therapy equipment and furnishings ($35K×3) | 105,000 |
| Installing pipe-in oxygen ($50K×3) | 150,000 |
| Installing suction systems ($15K×3) | 45,000 |
| Enhancing security systems ($25K×3) | 105,000 |
| Negative pressure rooms ($20K×3) | 60,000 |
| Kitchen upgrades—therapeutic diets ($35K×3) | 105,000 |
| Therapeutic whirlpool ($15K×3) | 45,000 |
| Audio/visual equipment ($45K×3) | 105,000 |
| Subtotal | 1,210,000 |
| Training and development staffing: | |
| R.N. educational coordinator | 55,000 |
| Project assistant/data analyst | 30,000 |
| Staff benefits—24 percent | 20,000 |
| Training and development fees, materials, equipment | 50,000 |
| Subtotal | 155,000 |
| Grand total | 1,715,000 |

## ATTACHMENT A

### AIDS HEALTHCARE FOUNDATION—SKILLED NURSING CARE

In order to provide skilled nursing care for people who need skilled care but no longer need an acute hospital level of care, AIDS Healthcare Foundation provides the following services based on certification by a physician:

Patients whose medical condition requires continuous, skilled nursing intervention of the following nature:

—Regular observation of blood pressure, pulse and respiration as indicated by the diagnosis or the medication (although not as only skilled need).

—Regular observation of, and treatment interventions for, skin conditions such as decubitus ulcers, edema, color and turgor.

—Intake and output as indicated by the diagnosis or medication in concert with other skilled needs.
—Wound care, including, but not limited to: postsurgical wounds, decubitus ulcers, leg ulcers, etc.
—Tracheotomy care, nasal catheter maintenance.
— Gastrostomy or other tube feeding. (Not as only skilled need except when gastrostomy is less than 90 days old).
—Colostomy care for newly post-op or debilitated patients. (Chronic colostomy care alone should not be a reason for continued skilled care.)
—Bladder and bowel training for incontinent patients or where a condition of total or severe incontinence where training has failed to improve.
—Patient is bedridden or comatose.
—Patient has a condition which requires a high degree of prolonged medical nursing support and supervision such as complex regiments of oral and/or parenteral medications, and diet to control diabetes, cardiac conditions, seizure disorders, hypertension, tumor conditions, obstructed pulmonary conditions, infectious conditions, and pain.

Supporting indications include (must be combined with above conditions):
—Dependence for activities of daily living—dependent upon degree.
—Cases in which the documented history and/or diagnosis gives clear indication of progressive incapacitation.
—Generalized weakness or feebleness.

Our admissions coordinators are always happy to assist anyone needing more information. They can be reached at 213–468–9533 or 213–468–9534.

FIGHT FOR THE LIVING * * *

---

## PREPARED STATEMENT OF DENNIS E. LOWER, EXECUTIVE DIRECTOR, UNIVERSITY HEIGHTS SCIENCE PARK, NEWARK, NJ

### PROJECT DESCRIPTION

The International Center for Public Health is a strategic development initiative that will create a world class, infectious disease research and treatment complex in University Heights Science Park, Newark, New Jersey. Science Park is located in a Federal Enterprise Community neighborhood. The International Center will have substantial local, regional, national and international impact as it addresses many critical social, economic, political and health related issues. The International Center is a $70 million anchor project that launches the second phase of a fifty acre, $300 million mixed-use urban redevelopment initiative, University Heights Science Park. The facility will total 144,000 square feet and house two tenants: the Public Health Research Institute (PHRI) and the University of Medicine and Dentistry of New Jersey's (UMDNJ) National TB Center, one of three Federally funded TB centers.

PHRI, the core tenant creating the International Center, is a nationally prestigious, 55 year old biomedical research institute that employs 110 scientists and staff in the research of infectious diseases and their underlying molecular processes. This facility will permit them to double their research staff and budget. Presently they conduct research programs in tuberculosis, AIDS, drug discovery, diagnostic development, and the molecular pathogenicity of a broad range of infectious diseases. A major focus of PHRI research is the study of antibiotic resistance of life-threatening bacterial organisms, and the development of a new generation of antibiotics.

The other International Center tenant will be UMDNJ's National Tuberculosis Center. The TB Center is one of three Model Tuberculosis Prevention and Control Centers in the United States funded by the CDC. It will add an important clinical component to the International Center for Public Health, since many TB patients also manifest other infectious diseases. The TB Center was founded in 1993 in response to the resurgence of tuberculosis in this Country. At that time Newark had the nation's second highest rate of TB cases for a major city.

Other collaborators in the development of the International Center include the New Jersey Department of Health & Senior Services (NJDHSS) and the pharmaceutical industry. Responsible for overseeing all statewide public health initiatives, NJDHSS will contract with the International Center to have cutting edge molecular epidemiology services provided to the State of New Jersey. Expanding the strategic use of molecular epidemiology to direct public health activities will facilitate prompt identification and containment of emerging and re-emerging pathogens. New Jer-

sey's major biomedical industry companies will also participate in the International Center. An infectious disease consortium will be developed to serve as a forum for disseminating fundamental research on the underlying molecular processes of infectious disease organisms. This research will contribute to private industry development of new drug therapies for antibiotic resistant microorganisms. Private industry R&D facilities contiguous to the International Center are also being explored.

THE ANCHOR PROJECT FOR UNIVERSITY HEIGHTS SCIENCE PARK

University Heights Science Park (UHSP) is a collaborative venture of Newark's four higher education institutions, the City and Community of Newark, and private industry designed to harness university science and technology research as a force for urban and regional economic and community development. The university sponsors, New Jersey Institute of Technology (NJIT), The University of Medicine & Dentistry of New Jersey (UMDNJ) and Rutgers University at Newark, annually conduct nearly $100 million of research in Newark, much of it federally funded. Essex County College trains technicians in eleven science and technology fields, and prepares Newark residents for employment with Science Park technology companies. The private industry Park sponsors include the following Newark based companies: Public Service Electric & Gas, The Prudential Insurance Company, First Union National Bank and Bell Atlantic of New Jersey.

UHSP is designed as a 50-acre, mixed-use, science and technology park in Newark's Central Ward, adjacent to the Park's four higher education sponsors. It is located in a Federal Enterprise Community neighborhood. At buildout UHSP will include one million square feet of technology commercial space, 75,000 square feet of technology incubator space, up to 20,000 square feet of retail support business opportunities, an 800 student technology high school, two blocks of new and rehabilitated housing and a community day care center. The $10 million first phase of Science Park has been completed, and includes the NJIT Enterprise Development Center 2 (a technology business incubator), a 100 child day care center and the CHEN Building (housing the industrial liaison laboratories for the Center for Biomaterials and Medical Devices). CHEN is the acronym for the Council for Higher Education in Newark, the coalition of four universities who founded University Heights Science Park. For almost two decades CHEN has jointly sponsored educational, housing, and retail/commercial projects in Newark's public schools and the neighborhoods of University Heights. The NJIT technology incubator was completed in Fall 1996, and is already 80 percent leased. More than half of the incubator companies are MBE/WBE's. In addition, over half of the children in the Science Park day care center are from the surrounding community, and the majority of day care center staff are from Newark. The construction of the International Center will anchor the second phase of Science Park, and serve as a magnet to attract pharmaceutical, diagnostic and other biomedical companies to Science Park. The Center will have the same impact on the Park as an anchor store does in a retail shopping mall.

HOW THE INTERNATIONAL CENTER FOR PUBLIC HEALTH ENHANCES AND IMPLEMENTS VA–HUD OBJECTIVES

*Veterans Administration (VA).*—VA sponsored research includes investigation of drug-resistant HIV, aspects of Gulf War Syndrome, and Sigma Factors in M.Tb. The International Center will contribute to the achievement of these objectives in the following way:

—PHRI is presently in discussions with the VA to explore the epidemiology of tuberculosis in the VA system. No studies have yet been performed to look at tuberculosis transmission on a national level with molecular epidemiological techniques. Studies of tuberculosis transmission have a particular value for the VA system, whose collection represents the only geographically representative source of TB strains in the nation. The project will type strains submitted and alert VA medical centers to the presence of related strains, thus providing warning of nosocomial or other local outbreaks.

*The Department of Housing and Urban Development (HUD).*—A major HUD objective is to effectively implement welfare reform as required by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. In addition, HUD is seeking to expand the economic and community development roles of universities to assist in the revitalization of distressed urban neighborhoods. The International Center will contribute to the achievement of these objectives in the following ways:

—Newark is a federally designated Enterprise Community (EC), and as such is already part of a Federal strategy to attract and support economic development activity that will create jobs in the urban core. The 50-acre Science Park is located within the boundaries of one of the EC neighborhoods. The development

of the $70 million International Center for Public Health will generate 1,500 direct and indirect construction and permanent jobs. The permanent jobs include custodial and clerical positions, lab technicians, medical personnel, researchers, and administrators. Science Park will work directly with the Essex County College (one of its sponsoring educational institutions) and their Technology Training Project (TTP) to train Newark residents as lab technicians for the International Center. TTP is privately sponsored by New Jersey's biomedical industry, and has been in existence for nearly 30 years. TTP trains 50 technicians annually, all of whom are high school graduates or adults looking for a new career.

It is one challenge to acquire necessary job skills, but it is another for urban residents to have the means to travel to where the jobs are. In the last 20 years Newark has lost 35,000 private sector jobs, a number of which have moved to New Jersey's western suburbs. This project redevelops urban land, preserves open green space, and utilizes existing public transportation to the doorstep of the Park. The development of Science Park is Newark's chance to reverse that job exodus by utilizing existing university resources and providing City residents with access to the technology jobs of the 21st century. The International Center serves as the cornerstone to launch the 50-acre urban redevelopment initiative. At buildout the Science Park will have generated $300 million of construction, 5,000 direct and indirect construction jobs, and 6,600 direct and indirect permanent jobs with an annual payroll of $275 million. The International Center serves as a magnet to attract other biomedical and pharmaceutical research and development companies into the Park. The development costs for the Center include the site preparation of three additional adjacent building pads. These sites will be simultaneously marketed to private biomedical companies, and will generate $60 million of additional construction, and another 1,500 direct and indirect construction and permanent jobs.

—The development of the International Center for Public Health in University Heights Science Park accomplishes the objective of HUD's Office of University Partnerships: the university expansion of economic and community development roles to revitalize distressed neighborhoods. Science Park is sponsored by four institutions of higher education.

REQUEST FOR ASSISTANCE

The University Heights Science Park is requesting $5 million from the United States Senate VA-HUD and Independent Agencies Subcommittee for fiscal year 1998 to support the Phase II development of Science Park: the construction of the International Center for Public Health. Such support will leverage Phase II development that totals $130 million, and creates nearly 3,000 direct and indirect construction and permanent technology jobs. These requested funds will be used specifically for site acquisition, demolition and infrastructure in a Federal Enterprise Community neighborhood in Newark, NJ.

On behalf of University Heights Science Park, I want to thank the Committee for the opportunity to present this request. We appreciate your consideration of our proposal, and hope to receive your support for the creation of the International Center for Public Health at University Heights Science Park, Newark, NJ.

---

## BIOGRAPHICAL SKETCH OF DENNIS E. LOWER

### AREAS OF EXPERTISE

*Real Estate Development and Financial Analysis*

Development and implementation of $300,000 to $115 million real estate projects (totaling $800 million); financial structuring and loan agreement negotiations; financial proforma development and analysis; bid solicitation for construction services; contract negotiations; market feasibility and strategy development, site feasibility analysis.

*Planning and Administration*

Program development, budgeting and management, staff recruitment and supervision; RFQ/RFP solicitation for professional services; contract administration; creative analysis and problem solving; Board management; grantsmanship; strong written and oral communication skills; strong computer and Internet skills.

*Government Relations*

Federal, state and local relations involving program funding and development; public hearings and permitting approvals; direct negotiations with elected officials; structuring of public/private partnerships; public policy development.

*Community/Human Relations*

Community consensus building in planning redevelopment projects; negotiation of community agreements; public speaking; neighborhood needs assessment; conflict resolution, strong interpersonal skills.

RELEVANT EMPLOYMENT EXPERIENCE

Executive Director, 1994 to Present, University Heights Science Park, Newark, NJ.

University Heights Science Park is a collaborative venture between four public universities, the City of Newark and private industry. The project is designed to commercialize university research and redevelop 40 blighted urban acres adjacent to the universities. The $270 million, mixed-use project will include 1 million SF of technology research, laboratory and office space, an 800 student science and technology high school, 100 units of housing, a children's day care center, and ancillary retail space. As the first Executive Director I am responsible for planning and developing the Park, and to date have accomplished:

—Development of a 40 acre Land Use and Implementation Plan;
—Assisted in securing $48.5 million for the project;
—Construction of two research and technology commercial buildings that house Science Park offices, a 100 child day care center and a technology incubator;
—Initiated the development of a strategic business, marketing and financing plan to recruit technology based companies to Science Park;
—Negotiation of a joint agreement with The Newark Public Schools to develop a $30 million Science Park High School, groundbreaking to occur March, 1998;
—Negotiation of a community partnership agreement articulating Science Park redevelopment principles with respect to acquisition, relocation, and local resident participation goals in construction, and permanent Park employment; and
—Developed the New Jersey Technology Fast 50 Awards Program recognizing the fastest growing technology companies in New Jersey, for the purpose of marketing the Science Park to NJ technology companies.

Deputy Director of Project Development, 1992 to 1994, Acting Executive Director, 1991, Director of Project Development, 1986 to 1991, Casino Reinvestment Development Authority, Atlantic City, NJ.

The CRDA is a New Jersey finance and community development authority created in 1986 with the mandate to invest $1.5 billion of casino gaming revenues at below market rates in publicly initiated residential and commercial real estate projects and community development programs statewide. The Authority's 13 member Board includes two Casino CEO's, the Mayor of Atlantic City, the Chair of the Casino Control Commission and the State Treasurer. I was employed by the Authority at its inception, and my responsibilities included:

—Developing and implementing policies and procedures for a statewide loan program;
—Soliciting and evaluating developer loan proposals and securing Board approval to invest $430 million of CRDA funds in 50 statewide projects totaling $790 million;
—Conducting financial proforma analysis and program reviews on all development loan proposals;
—Developing and implementing 4 Redevelopment Plans in Atlantic City;
—Negotiating and structuring all development project financings; representative projects include office buildings, entertainment facilities, baseball stadiums, hotels, supermarkets, social service facilities, factories, high and low-rise residential complexes, infrastructure replacement, medical facilities and direct loan programs;
—Negotiating with legal counsel all loan, credit and bond documents for approved projects;
—Coordinating all aspects of real estate development, including: preparation of supplementary federal and state funding applications; preparation of residential and commercial relocation plans involving 450 families and businesses; acquisition of 800 privately and city owned parcels, with 225 acquired through condemnation; site preparation through demolition and environmental remediation; site plan and building design review; and REQ and REP solicitations for developer, professional and construction services.

—Coordination of 6 major law firms in land acquisition, project financings and project implementation;
—Serving as the primary community liaison for all Atlantic City redevelopment plans;
—Hiring and supervising 14 Authority staff;
—Setting the monthly agenda for the Board of Directors' meeting and presenting all actions requests;
—As Acting Executive Director, responsible for total Authority operations, project financings, management of Board of Directors, and supervision of 30 staff.

Founder and Executive Director, 1981 to 1986, National Shared Housing Resource Center, Philadelphia, PA.

Founding Executive Director of a national non-profit housing agency that promotes alternative affordable housing through education, technical assistance, real estate development and direct service delivery. I secured finding through private foundations, federal and state governments, and fees for service. My responsibilities included:

—Developing a 12 member Board of Directors and a 12 member National Advisory committee of U.S. Congressional members, housing, aging and finance professionals;
—Hiring and supervising a 12 person staff;
—Program development, grantsmanship and fundraising;
—Writing technical assistance publications;
—Conducting 175 training and technical assistance workshops in 25 states on building and zoning codes, proforma development and analysis, financing marketing and residence management which resulted in the development of 300 housing programs nationwide;
—Serving as developer for 30 units of housing;
—Developing and administering a low-interest housing loan fund;
—Developing a national legislative agenda resulting in legislation amending HUD and HHS policies on Section 8 subsidies, SSI payments, food stamps and capita] gains sales tax exemptions.

OTHER PROFESSIONAL ACTIVITIES

Presenter/Speaker on Economic and Social Impacts of Casino Gaming at various professional meetings in New Orleans, Philadelphia, and Washington, D.C.

Presenter/Speaker at numerous professional conferences on urban planning and development issues.

Lecturer, Harvard Graduate School of Design, Summer Professional Seminar Program on resort development.

Partner, Coral Bay Partners, a land development venture in St. John, USVI.

Professional Memberships: Council on Urban Economic Development (CUED), American Planning Association (APA), and Association of University Related Research Parks (AURRP).

MONOGRAPHS AND SELECTED TESTIMONY

*Designing Shared Housing for the Elderly: Social and Architectural Considerations* (with Dr. Sheree West and Hugh Zimmers, FALA), November, 1985.

*Shared Housing for Older People: A Planning Manual for Group Shared Residences*, April, 1983.

*National Policy Workshop on Shared Housing: Findings and Recommendations* (with Dr. Joan Ward Mullaney and Drayton Bryant), June 1982.

State of New Jersey—Written and spoken testimony before the Joint Committee on Software Technology, August, 1995.

New Orleans City Council—Written and spoken testimony on the Economic and Social impacts of Casino Gaming, September, 1993.

U.S. House of Representatives, Select Committee on Aging—Written and spoken testimony on Shared Housing on three occasions: June 1985, Erie, PA; November, 1982, Washington, D.C.; October 1981, Denver, CO.

EDUCATION

Gordon-Conwell Theological Seminary, South Hamilton, MA; Master of Divinity, 1979.

Wheaton College, Wheaton IL: Bachelor of Arts, Philosophy, 1971.

Boston University Hospital, Boston, MA; Pastoral Clinical Counseling Certificate, 1980.

PREPARED STATEMENT OF DR. MARY LOUISE COLE, PRESIDENT OF ICARE BAY POINT SCHOOLS

As a former Congressman from Florida and member of the House of Representatives Committee on Appropriations, it is my pleasure to introduce the President of ICARE Bay Point Schools, Dr. Mary Louise Cole, the spokesperson for our organization. U.S. Representative Clay Shaw and Senators Connie Mack and Bob Graham also support this program.

If the Department of U.S. HUD has special purpose grant funds, we request $3 Million of such funds to be used for a demonstration project for the housing of at-risk juvenile offenders.

The ICARE Bay Point Schools in South Dade, Florida, is such a program in need of transitional housing for juvenile offenders while they attend school as an alternative to prison. These youth are from low income families and also are at-risk of being homeless.

If no such funding exists, we request that the Subcommittee include report language in its legislation that will indicate the Subcommittee's interest in the endeavor and which will also urge the U.S. Department of HUD to pursue the possibility of special grant funding for such a program. Matching funds for operating can be obtained from the State of Florida.

ICARE Bay Point Schools campus is on 45 acres south of Miami by Biscayne Bay. The schools grew out of the InterFaith Coalition's Hurricane Andrew's Recovery Effort (ICARE) to rebuild homes which were destroyed in 1992. Experienced volunteers help teach construction skills and act as role models for the juveniles adjudicated by the courts. We believe they still have unlimited potential to grow and learn if they have decent housing while earning their GED and learning job skills as an alternative to being sentenced to prison and being released prone to drugs and crime and at-risk of homelessness.

Juveniles with multiple non-violent offenses such as drug use or car theft or burglary who are between 14–17 years of age should not be sent to prison where they learn the habits of older and often violent offenders and themselves become potential career criminals. However, if they are sent back to their neighborhoods on probation, they are influenced by their former "gang's" negative peer culture or negative family situations. These are the breeding grounds for drug abuse and future homelessness.

Although the ICARE Bay Point Schools program acknowledges that the children's problems reflect unique interactions between individuals and environmental conditions, we feel that the focus must be on behavior education and behavior management. The child cannot move forward in developing his own pattern of success if he continues to blame his involvement in crime and negative behavior on others or the environment. For that reason, we prefer to speak of education rather than treatment, a school rather than a half-way house. We do not look at our clients as mentally ill needing treatment. We view them as students needing to learn behavior management. They need to become motivated to set positive goals and to become educated, productive citizens.

The success of the program over two years for 50 youth needs to be expanded to house 200 juveniles in a demonstration project requiring new dormitories, classrooms, and extensive site preparation. The multi-racial and multi-ethnic demographics of Dade County, Florida, make ICARE Bay Point Schools an ideal national demonstration project. Of the 2 Million total population of Dade County, approximately 50 percent are Hispanic-American, 25 percent are Afro-American, and 25 percent are Caucasian-American. Bay Point Schools approximates these demographics.

Recent research studies provide a number of insights regarding the elements which contribute to successfully treating disadvantaged, at-risk-of-homelessness, drug-using, delinquent youth. ICARE Bay Point Schools is designed around these elements. This adherence to proven design principles is the basis of Bay Point Schools success resulting in a high percentage of youths successfully transitioning to aftercare and, ultimately, leading law abiding responsible lives.

There is a need to seek new solutions for teenagers who are from low income families and are at-risk of being homeless or delinquent. The custody/clinical model has been ineffective. Two years ago, the ICARE Bay Point Schools was established as a boarding school for 14 to 18 year old juvenile delinquents based on the theory that these boys are not mentally ill, sick, or born bad. In place of the current "treatment" model (custody/clinical), a program based on education, behavior modification, and moral development was emphasized in an innovative boarding school approach. A comparison of the two models and the success rate of Bay Point Schools is attached.

For generations, wealthy families, faced with a teenager whose bad behavior was leading to trouble and embarrassment for the family, hustled them out of town to a military or boarding school. ICARE Bay Point Schools does the same thing for boys who are getting into trouble, but from all walks of life. The one thing they have in common: they have begun committing crimes judged to be more serious than just misdemeanors. Once the positive peer climate takes effect at the Bay Point School, the students have one thing more in common: the change in their value system that causes them to see their former behavior as unacceptable and motivates them to work to become positive members of society.

Bay Point prides itself on its emphasis on leaderhip training, which motivates its students to excel whether in the classroom, on the playing field, or in society at large. All students are tested quarterly and placed in classes according to the grade level they have achieved over the last quarter. In this way, bright, motivated students may move through several grade levels within a year. The classes are kept small so that education can be individualized and each student can move through the grades at their own rate of learning. Suddenly, boys who had zero interest in their high school classes are making plans to go to college, to follow a career. Now, the other students are working twice as hard to follow in their footsteps.

But there is more to Bay Point than academics. It is "in" to be polite, to take pride in appearance, and to work hard in class. The secret? Peer pressure. Students feel mutual respect for one another, their teachers, and their parents, but the students will not hesitate to confront a student whose attitude is negative. This should come as no surprise. We have always known teenagers listen to each other more than they pay attention to parents or other adults.

We suggest we have found a solution to juvenile crime, and it is not more prisons which lead to homelessness.

It is imperative that this normative peer leadership model become a national demonstration project. We hope funds from U.S. HUD will be the catalyst.

Thank you for your consideration.

---

ATTACHMENT 1

*ICARE Bay Point Schools Discharged Report*

| | *Percentage* |
|---|---|
| School | 45 |
| College | 15 |
| Employed | 30 |
| Military | 6 |
| Detained | 3 |

The success of ICARE Bay Point Schools in returning its students to the community as law abiding citizens is shown in the table above. In the last two years, thirty-three of the committed youths from the Department of Juvenile Justice have graduated from the program. From these thirty-three, forty-six percent have returned to school in their community, thirty percent are employed and twenty-one percent are attending colleges (with scholarships) or have joined the military/job corps. Of the thirty-three, only one student committed a felony after being discharged.

---

ATTACHMENT 2

The following are characteristics of the sociological model contrasted with those often associated with custody/clinical programs.

| *Custody/clinical* | *Sociological model* |
|---|---|
| Treat delinquent youth as abnormal | Treat delinquent youth as normal. |
| Respond to delinquency as psychiatric syndrome. | Respond to delinquency as social fact. |
| Treatment model emphasizes family dysfunction, early development and psychological problems. | Treatment model emphasizes behavior change and life skills development. |
| Student viewed as basically deviant in character. | Student viewed as basically good and worthy of respect. |

| *Custody/clinical* | *Sociological model* |
|---|---|
| Individual emphasis: Focus on personality change to effect behavior change. | Systems emphasis: Focus on behavior change to bring about personality change. |
| Emphasis on one to one counseling ..... | Emphasis on group normative culture. |
| Professional staff as the sole treatment force and line staff as caretakers. | Line staff accountable for student life and skills development. Utilize specialist when requested by staff team. |
| Blame family, school, line staff, parents, legislator, judges for the youth's inability to reform, mature or develop life skills. | Hold the student, the staff, and the program accountable, (only the program and its workers fail). |
| Use lock-ups, drugs, one-to-one counseling to control behavior. | Use peer pressure, rewards, diversification of programs to change behavior. |
| Do not place necessary and proper emphasis for protection of students in the living units. This results in a street culture of bullying, conning, physically hurting, and stealing. | Pay great attention to internal systems for safe environment. |
| Since the basic assumptions are flawed, the problems continue and become greater. The traditional social service leaders continuously request more money to do more and more of what is not working. | Require no paid security department and far fewer professionals. The model operates efficiently on a per diem cost far below that of custody/clinical programs. |
| Consider guards and locked units necessary for security. | Consider guards and locked units impediments to security. |

---

## PREPARED STATEMENT OF THE AMERICAN ASSOCIATION OF HOMES AND SERVICES FOR THE AGING

The American Association of Homes and Services for the Aging (AAHSA) is pleased to submit for the record our comments on the fiscal year 1998 Administration budget request for the U.S. Department of Housing and Urban Development (HUD). As you know, AAHSA is the largest organization representing nonprofit sponsors of senior housing—owning and managing over 300,000 units of market rate and federally assisted housing—including the largest number of sponsors of HUD Section 202 elderly housing facilities. The housing needs of older persons and federal budget proposals affecting their ability to be suitably and affordable housed are of critical importance to our members.

This committee has shown strong support and leadership over the years to help ensure that the elderly are appropriately housed in suitable, affordable, decent and safe housing. We have great expectations that your committee will sustain that leadership and provide the means necessary for federally assisted elderly housing to continue as a viable resource for the growing numbers of low-income elderly. As nonprofit sponsors of elderly housing, we consider ourselves partners with the federal government. We have a mission of helping those whose needs are the greatest and striving to provide housing to all low-income elderly who need it. Despite the tremendous good our successful partnership has accomplished, it is still not enough. The poor elderly continue to have unmet housing needs. HUD's 1996 study on worst case housing needs shows that 1.2 million households are headed by an elderly person where residents were spending more than 50 percent of their income on rent or are living in severely substandard housing. For a nation with our vast resources and committed to caring for vulnerable populations including low-income, frail elderly, this is both a shameful and daunting statistic. We believe that part of the federal government's mission should be to foster an environment that allows aging seniors to live in suitable, affordable and decent housing that maintains their individual dignity and independence. We continue to believe that working as a nonprofit organization in an effective partnership with HUD and Congress, we can help to accomplish that goal.

We believe the federal budget should not only reflect fiscal responsibility, but should reflect our tradition as a caring and compassionate nation. The quality and effectiveness of these programs serving a vulnerable population are an expression

of that tradition. Unfortunately, while the Administration's overall HUD budget calls for increases in some programs, inexplicably, other housing programs benefiting the elderly suffer reduced funding—and in certain instances, outright elimination. Also of particular concern, is having adequate funding to renew expiring Section 8 rental assistance contracts without subtracting funds from other housing programs or pitting one needy population against another.

In this context, for fiscal year 1998, AAHSA is especially concerned with funding for: Section 8 Project-Based Assistance; Section 202 Supportive Housing for the Elderly Program; Service Coordinators; and Modernization and Retrofit.

SECTION 8 PROJECT-BASED RENTAL ASSISTANCE

We do not envy the difficult position in which the committee finds itself in fiscal year 1998. The increased strain on HUD's discretionary spending account—including the surge in costs to renew expiring Section 8 contracts in fiscal year 1998—is a most troublesome condition needing a pressure relief valve. From our perspective, that pressure is best alleviated by a sufficient budget to renew expiring contracts that does not squeeze out other discretionary programs at HUD. While it is clear that the greatest number of Section 8 contracts will begin to expire this fiscal year, it is not yet clear that Congress has committed to both renewing these contracts and ensuring that other existing HUD programs serving the poorest of the poor, including the very-low income and frail elderly, will be protected. AAHSA is pleased that HUD has also taken a strong stance in favor of renewing all expiring contracts and urges the committee to renew all Section 8 contracts expiring in fiscal year 1998.

The importance of maintaining project-based rental assistance cannot be overstated for AAHSA members. Elderly housing works spectacularly well, delivering high quality housing and appropriate supportive services, at affordable rents to low income seniors. In the recent legislative proposal on multifamily restructuring unveiled by HUD, we were gratified to learn that HUD also adheres to the project-based approach for elderly housing. HUD's proposal would exempt Section 202 and Section 8 elderly housing facilities from the tenant-based contract renewal requirements. Elderly housing facilities have needs that are distinct from other multifamily housing and tenant-based vouchers do not work as well for older persons. Also, most seniors have no desire to relocate which the tenant-based approach is designed to facilitate. Project-based assistance is the right solution, it works in elderly housing, and it should be continued.

*Recommendation*: We urge you to renew expiring Section 8 contracts in fiscal year 1998; and, to renew all existing project-based rental assistance contracts for federally assisted elderly housing facilities.

SECTION 202 SUPPORTIVE HOUSING FOR THE ELDERLY PROGRAM

When we testified before this committee last year, we said that HUD needs adequate resources to accomplish its mission, and there are certain HUD programs—such as the Section 202 elderly housing program—that work well and should be preserved and supported. This year, that message is no less relevant. It is a major disappointment to elderly housing providers that the Administration's budget recommends a devastating reduction in funding for the Section 202 elderly housing program by requesting only $300 million to develop 3,865 units in fiscal year 1998. Given that in fiscal year 1997, Congress appropriated $645 million to fund 6,836 units, this represents less than half the funding (46.5 percent) of current levels. In comparison to fiscal year 1996—$830 million for 8,743 units—this request is little more than one-third funding (36 percent). Over the years, unit levels for Section 202 has dwindled from the late 1970's—when over 20,000 units per year were funded—to the current levels of approximately one-third that number.

Because Section 202 is one of a few new construction housing program at HUD, we are concerned that some policymakers mistakenly view the program as serving future and not current housing needs, thereby relegating the program to a lower funding priority than other HUD programs. Part of our alarm is reflected by HUD Secretary Andrew Cuomo's prepared testimony on the Administration's budget proposal before this committee in mid-March where he failed to once mention elderly housing. We view with skepticism the assertion that restoring funding to Section 202 deprives other HUD programs of needed funds. In other words, we do not believe the argument that "Congress is robbing Peter—other HUD programs, to pay Paul—Section 202." This is short-sighted, misguided, and insensitive to the many elderly who are currently languishing on multi-year waiting lists. In addition, this approach does not anticipate the changing demographic trends and burgeoning numbers of elderly who, as a group, are considered the fastest growing segment of

our nation's population, particularly the 85 and above age group. Section 202 is a deserving HUD program that works and it's funding should be restored to current levels to address the tremendous demand for housing by the very-low-income, and the growing elderly population. Section 202 should not be the sacrificial lamb in HUD's budget.

As an indication of our commitment to helping to reduce costs to the federal government, we are interested in pursuing a strategy to reform the Section 202 program that involves restructuring the financing and subsidy components of the older loan projects. Under this proposal, a project would have the option of having it's existing HUD mortgage forgiven and replacing it's existing Section 8 contract with a Project Rental Assistance Contract (PRAC). We believe there are mutual benefits to the federal government, nonprofit sponsors, and residents by enabling the pre-1990 Section 202-loan projects to convert to the revised Section 202 capital advance with a PRAC. Converting Section 202 loans to grants while simultaneously restructuring Section 8 contracts to PRAC's makes good sense, since it basically eliminates the Section 8 payment that is needed for the mortgage payment. This would remove that elderly housing inventory from the Section 8 account and assist HUD by reducing the amount of funds necessary for Section 8 contract renewals. Although our intent is to begin the conversion program with Section 202 projects, as nonprofit sponsors, we eventually want to extend the conversion option to other federally assisted elderly housing, including nonprofit sponsored Section 236 elderly housing projects. HUD has been supportive of the conversion concept and as we continue to work with the department on the details, we look forward to working with this committee to refine the proposal.

*Recommendation:* We strongly urge you to restore funding to Section 202 in fiscal year 1998 to a sufficient amount to at least maintain current unit levels with multi-year rental assistance contracts. We urge your support for the proposal enabling nonprofit sponsors of elderly housing to convert to a Section 202 capital advance and project rental assistance contract.

SERVICE COORDINATORS

Service coordinators make a vital contribution to the lives of frail, older persons by facilitating needed support services to help them maintain their independence while also helping them meet their obligations of tenancy. Service coordinators serve as a crucial link to effective delivery of home and community-based services, as a cost-effective measure in long-term care strategies, and as a part of the continuum of care for older persons in federally-assisted housing.

Beginning with the fiscal year 1995 rescissions, separate funding for service coordinators has not been requested by the Administration or provided by Congress for federally assisted elderly housing facilities. Instead, service coordinator funding has been folded into various block grant approaches. In fiscal year 1998, the Administration recommends that $50 million of public housing funds be used for a host of supportive housing activities, including service coordinators. It has been our experience for the last three fiscal years that only a small portion of these funds will accrue to federally assisted elderly housing, and the lion's share of these funds will principally go to various supportive services programs for public housing residents. For these reasons, we have reservations about this approach.

Mr. Chairman, we are very appreciative of the strong support for the service coordinator concept that you and your committee have provided over the years. Last year, the House included language in the subcommittee report allowing service coordinators as a part of routine operating expenses, and directed HUD to include the costs of service coordinator funding in their future Section 8 budget submissions. However, HUD did not include that cost in their fiscal year 1998 budget request, and the consequences may be immediate and significant for some existing projects that currently have service coordinators. Some of these projects have a critical need for service coordinators but do not have adequate reserve funding (through excess residual receipts), or their residents cannot absorb the extra costs associated with a rent increase. In fiscal year 1998, the first projects that were funded under the service coordinator awards program will have their existing contracts expire and they have little hope of sustaining a service coordinator because of inadequate reserves or insupportable rent increases. These projects would be able to retain their existing service coordinator if HUD allowed the costs for service coordinators as an eligible project expense in order to make a meaningful difference in the lives of very frail, very needy, and very vulnerable elderly persons.

*Recommendation:* We strongly urge you to allow service coordinators as an eligible project expense in order to meet the needs of existing elderly housing projects that

cannot support a rent increase, that are lacking in reserves, or whose existing service coordinator contract is expiring.

MODERNIZATION AND RETROFIT

As we have stated previously, many nonprofit-sponsored federally assisted elderly housing facilities are aging and have critical capital improvement needs for modernization and retrofitting. Many of these facilities require retrofitting of community space and individual units to accommodate the needs of aging residents for the delivery of supportive services to help them to remain in their homes. Since the program was revised in 1990, the Congregate Housing Services Program (CHSP) retrofit component has not been implemented because of a lack of funding. Implementing CHSP/retrofit would allow projects to modify, renovate, and modernize their physical plant to accommodate supportive services for their frail elderly residents.

AAHSA strongly supported previous action taken by this Committee urging HUD to implement CHSP/retrofit. For the third year in a row since the pre-1995 rescission, the Administration's fiscal year 1998 proposal does not request funding for CHSP although the pressure for modernization and retrofit in federally assisted elderly housing continues to expand. AAHSA believes the retrofit program should be funded, implemented, and given the opportunity to work. Also, AAHSA has advocated that Section 236 projects be allowed equitable access to their excess rents—to retain the excess funds from rents generated by their individual facilities that are presently returned to HUD—for their project's use.

*Recommendation:* We urge you to restore funding in fiscal year 1998 for CHSP at the pre-rescission fiscal year 1995 level, to direct HUD to implement the retrofit program, and to allow Section 236 elderly projects to retain excess rents for modernization and retrofit needs.

Thank you for this opportunity to testify. AAHSA is pleased to be able to contribute to the committee's deliberation on these critical issues, and we urge your support for the recommendations outlined in our testimony. We hope that our comments will assist in helping you formulate a budget that is responsive to the increasing needs of very-low-income elderly. If you desire additional information, please contact Gerard Holder, AAHSA Associate Director for Housing Policy (202–508–9476).

---

## ENVIRONMENTAL PROTECTION AGENCY

### PREPARED STATEMENT OF THE CONSORTIUM FOR CITIZENS WITH DISABILITIES HOUSING TASK FORCE

INTRODUCTION

Mr. Chairman and Committee Members, the Consortium Citizens with Disabilities (CCD) Housing Task Force is grateful for the opportunity to provide testimony to your Subcommittee on the housing needs of people with disabilities. The current goals of the CCD Housing Task Force are to (1) highlight the acute and increasing housing crisis facing people with disabilities; (2) advocate for new HUD resources to replace the federally assisted housing that is no longer available to people with disabilities; and (3) advocate that HUD be directed to fully utilize mainstream housing programs on behalf of people with disabilities.

The Consortium for Citizens with Disabilities (CCD) is a Washington based coalition of over 100 consumer, advocacy, provider and professional organizations who advocate on behalf of people of all ages with disabilities and their families. The CCD Housing Task Force focuses specifically on housing issues which affect people with disabilities, particularly the availability of affordable, community based housing options and the protection of their fair housing rights. The individuals whom we represent—most of whom have very low incomes—may be current participants of HUD assisted and public housing programs, may be on federal housing program waiting lists, or may need to apply for federal housing assistance at some future time.

The CCD Housing Task Force strongly believes that housing is often the cornerstone to independence. If a person—with or without a disability—has access to decent, safe, and affordable housing, then he or she can concentrate on getting an education or job training, or a job, and become a viable and productive part of the community.

BACKGROUND

Today, in virtually every part of the United States, people with disabilities face an extreme crisis in the availability of affordable housing which meets their needs

and desires. In cities and towns across the country, as people with disabilities struggle to find good quality housing they can afford, they are beginning to understand the real implications and bitter reality of recent federal housing policies—policies that have dramatically reduced the federally subsidized housing units that are available to people with disabilities.

These policies were enacted by the Congress in 1992 and 1996 in order to permit public and assisted housing providers to designate "elderly only" housing. As we move into the appropriations process for fiscal year 1998, people with disabilities and their advocates understand that, unless Congress acts to replace the hundreds of thousands of federally subsidized housing units which are no longer available to people with disabilities, an increasing number of people with disabilities will be forced into homelessness, or will continue to live in extremely substandard housing, or will remain unnecessarily in inappropriate institutional settings.

In September of 1996, in its report entitled *Opening Doors: Recommendations for a Federal Housing Policy to Address the Housing Needs of People with Disabilities* the CCD Housing Task Force conservatively estimated that 273,000 units of public and assisted housing would be lost to people with disabilities by the year 2000 as the direct result of "elderly only" designated housing policies. This loss consists of 115,000 designated units in federally-funded public housing and an additional 158,000 units in HUD assisted housing (i.e. 202/Section 8, "covered Section 8 projects", Section 8 Loan Management Set-aside, Section 236, Section 221, etc.).

This significant loss of housing supply for people with disabilities is the direct result of the implementation of "elderly only" designated housing policies by federal public and assisted housing providers. The bitter irony of this loss of housing opportunity is that it comes at the time when people with all types of disabilities are now increasingly able to live successfully in homes of their own—if those homes are decent and affordable.

ASSISTED HOUSING LOSS

Much of this loss has already occurred in the HUD assisted housing inventory, since no HUD approval is required to limit or preclude the admission of people with disabilities to the 650,000+ efficiency and one-bedroom units developed over the past 25 years. For example, a recent survey of one urban county in Michigan conducted by the Technical Assistance Collaborative Inc., indicates that 3,000 of the 5,000 HUD assisted housing unit inventory has been converted to "elderly only" housing, a loss of 60 percent.

To make matters worse, this county has very little federal public housing and extremely long waiting lists for Section 8 certificates and vouchers. Only 10 McKinney Shelter Plus Care rental subsidies are available for people with disabilities who have already become homeless. Fortunately, some of the new Section 8 certificates appropriated by this Subcommittee for fiscal year 1997 may soon be awarded for people with disabilities in this county to offset this profound loss of assisted housing.

PUBLIC HOUSING LOSS

The CCD Housing Task Force is very concerned about the impending loss of many thousands of public housing units that were previously available to people with disabilities. Thus far, HUD had approved 50 Public Housing Allocation Plans, designating approximately 22,000 public housing units as "elderly only". However, a recent HUD Notice minimizing PHA allocation plan requirements has prompted a significant increase in the number of allocation plans being submitted to HUD. Currently seven plans are pending and more PHA's are in the process of preparing plans.

During the next 12 months, HUD predicts that an additional 174 plans will be filed. Using the approximate loss of public housing which has occurred from the 50 HUD approved plans as the benchmark the CCD Housing Task Force estimates that at least 90,000 public housing units will be lost to people with disabilities by March 1998. These numbers demonstrate that the original CCD estimate of 115,000 public housing units lost by the year 2000 may be reached as early as 1998.

WHERE WILL PEOPLE LIVE?

Given the magnitude of this loss of federally subsidized housing, how will people with disabilities, particularly those who waited patiently on PHA and assisted housing waiting lists, go about obtaining decent housing? How will the three million people with disabilities currently receiving Supplemental Security Income (SSI) benefits be able to afford their own apartment or home? [NOTE: SSI income is less than 25 percent of median income nationally.] What housing options are available for people with disabilities who live with aging parents, or who are paying 75 percent or more

of their limited income for rent, or who are living in unnecessarily restrictive congregate settings—like nursing homes?

Until the Congress took bold action one year ago, there were very few if any good answers to the above questions. It is a fact that:

1. The $50 million appropriation of Section 8 certificates and vouchers included by Congress in the fiscal year 1997 HUD appropriations bill were the first new resources targeted to replace the significant loss of HUD assisted housing;

2. Very few PHA's have targeted their turnover Section 8 certificates and vouchers to people with disabilities who will be turned away from the PHA's "elderly only" designated public housing;

3. Appropriations for the Section 811 program continue to decline, despite the documented growing need for new housing resources for people with disabilities;

4. Mainstream housing programs such as HOME and CDBG have not been targeted, either by HUD or by state and local communities, to offset the significant loss of housing opportunity experienced by people with disabilities due to the implementation of "elderly only" designated housing policies;

5. HUD continues to ignore the acute housing crisis facing people with disabilities and the negative consequences that "elderly only" designated housing polices have on the available supply of housing for people with disabilities in local communities.

Despite the mounting evidence documenting the loss of efficiency and one bedroom units for people with disabilities in now "elderly only" developments, HUD's fiscal year 1998 budget request does not even mention the extreme housing crisis faced by people with disabilities. The CCD Housing Task Force believes that replacing this lost housing should be included among the HUD Secretary's core challenges. However, as was the case in last year's budget process, HUD has virtually ignored the impact that "elderly only" designation has on its own programs, and has made no effort to measure or evaluate the loss of housing for people with disabilities. Without a realistic policy framework within HUD to address this issue, people with disabilities will remain the most underserved of the groups eligible for HUD assistance, and the group with the highest incidence of "worst case" housing needs.

RECOMMENDATIONS

The CCD Housing Task Force believes that people with disabilities are entitled to an equitable of federal housing resources, even given the Section 8 renewal issue and the other constraints on the federal budget. To do otherwise will return us to the era when people with disabilities had few if any rights to housing, and when their housing choices were often limited to expensive, restrictive, and inappropriate institutional settings or homelessness. Therefore, in order to ensure a "fair share" approach, the CCD Housing Task Force makes the following recommendations for fiscal year 1998, which are based on the documented housing needs of people with disabilities and the extreme housing crisis caused by the implementation of federal elderly only housing policies.

*Section 8 Tenant Based Rental Assistance*

The CCD Housing Task Force believes that Section 8 tenant based rental assistance is one of the most effective tools for helping people with disabilities live integrated lives in their home communities. It is also the program which can most quickly provide alternative resources to people with disabilities, who would have otherwise been eligible for federal housing units now designated as "elderly only". HUD's fiscal year 1998 budget requests incremental Section 8 rental assistance only for people in welfare to work programs and ignores the critical need for rental subsidies for people with disabilities recognized by the Congress last year.

The CCD Housing Task Force seeks your continued support for $50 million in new Section 8 incremental rental assistance specifically for people with disabilities. We urge you to again appropriate funds for this assistance and not rely on the already under-funded Section 811 Supportive Housing Program for Persons with Disabilities. Your willingness to provide incremental funding for new Section 8 certificates and vouchers sends a strong, clear, and very positive message to those people with disabilities desperately in need of decent and affordable housing. Many of these people are living in communities where virtually all of the federally funded efficiency and one-bedroom units have been converted to "elderly only" housing. For them, Section 8 rental assistance is their only hope.

*Section 811 Supportive Housing For Persons with Disabilities*

The CCD Housing Task Force has major concerns with HUD's fiscal year 1998 appropriations recommendations for the Section 811 program. During the past seven years, people with disabilities and their advocates have worked closely with HUD and the Congress to re-tool the Section 811 program, thereby facilitating the devel-

opment of smaller, scattered-site housing in the community for individuals with disabilities. However, we continue to believe that HUD views the Section 811 program as "the" disability program—a view which provides no policy direction for HUD or grantees to target mainstream programs (i.e. HOME and CDBG) for people with disabilities. The Section 811 program is one of those success stories where non-profit organizations have worked in partnership with federal and state governments to provide people with disabilities with needed housing in the community. Therefore, the CCD Housing Task Force believes that it is time for the flexibility and innovation now provided with other HUD programs (i.e. HOME, McKinney Supportive Housing Program, etc.) be offered to the non-profits developing housing within the Section 811 program.

The fiscal year 1998 budget proposes $174 million for the Section 811 program—the same level of funding HUD requested last year. Fortunately, Congress ignored HUD's recommendation and added $20 million back to the program for a total fiscal year 1997 appropriation of $194 million. Unfortunately, even that level represents a cut of $193 million from the appropriation for the Section 811 program in 1995 and 1996. HUD justifies the cuts to Section 811 by stating that all programs must be cut. Yet, the CDBG and HOME programs are held sacred.

The Section 811 program cannot be targeted to do more with less funding! The CCD Housing Task Force seeks your support for additional funding for the Section 811 program. The Task Force supports tenant based rental assistance as part of the Section 811 program—if additional funds are available. HUD published a Notice of Fund Availability on this rental assistance on April 10. Despite HUD's good intentions, this NOFA makes PHA's the only eligible applicants for this rental assistance. Unfortunately, since the NOFA was published it has become very clear that many PHA's are unwilling to apply for these funds. Since non-profit organizations were originally the only ones eligible for Section 811 funds and since they have first hand knowledge of the housing crisis facing people with disabilities, the CCD requests that you provide HUD with the authority to make non-profts eligible applicants for the tenant-based rental assistance funded through this program.

*Section 8 Renewals and Section 8 Turnover*

The CCD Housing Task Force supports the renewal of all Section 8 expiring contracts for the certificate and voucher programs and for Section 8 assisted housing. Many people with disabilities would be seriously harmed should Congress not renew these commitments. Those harmed would include residents of 202/Section 8 projects developed for people with disabilities before the Section 811 program was spun off and more than 200,000 people with disabilities now using Section 8 certificates or vouchers.

In addition, the CCD recommends that—as PHA's increasingly seek to designate "elderly only" housing—Section 8 turnover subsidies at the PHA could be re-directed to people with disabilities who would have otherwise been eligible for admission to public housing.

*HOME and Community Development Block Grant Programs*

The CCD Housing Task Force believes that the solution to the housing crisis facing people with disabilities lies with HUD mainstream housing resources, including the HOME and CDBG programs. Unfortunately, HUD has provided no guidance or direction for state or local governments regarding the use of these funds to off-set the loss of federally subsidized housing for people with disabilities occurring from designation. Without this guidance, local and state housing and community development officials are often reluctant to change existing program activities, despite the priority housing needs of people with disabilities documented in their Consolidated Plans.

The CCD Housing Task Force supports continued funding for the HOME and Community Development Block Grant programs provided that a "fair share" of these federal resources are directed to meet the housing needs of people with disabilities—including addressing the loss of federal public and assisted housing for people with disabilities, which is occurring due to "elderly only" designated housing policies.

*Government Accounting Office Report*

The CCD Housing Task Force believe that it is imperative that HUD and the Congress have reliable data on which to base policy decisions related to the housing needs of people with disabilities. HUD efforts in the past in relation to the housing needs and usage of people with disabilities have been half-hearted and incomplete. Unfortunately, HUD continues to ignore the impact of federal housing designation policies—as well as the fact that people with disabilities want and should live in their home communities. The CCD Housing Task Force requests that you include

a report by the U.S. Government Accounting Office in the fiscal year 1998 HUD appropriations bill.

SUMMARY

The CCD Housing Task Force is grateful for the opportunity to provide this testimony. If there are any questions, please contact one of the co-chairs of the CCD Housing Task Force—Andrew Sperling 703–524–7600; Kathy McGinley 202–785–3388; Suellen Galbraith 703–642–6614; and Michael Allen 202–467–5730.

---

## PREPARED STATEMENT OF THE ARC

### INTRODUCTION

The Arc is the largest voluntary organization in the United States devoted solely to the welfare of the more than seven million people with mental retardation and their families. There are more than 1,100 state and local chapters of The Arc nationwide. For two decades, a top priority of The Arc has been to make community-based services and supports, including an appropriate variety of housing options, more available to people with mental retardation. The Arc also seeks the deinstitutionalization of people with mental retardation residing in large, inappropriate, and extremely expensive institutions—places which many people with mental retardation have been forced to call home, often because there is nowhere to live in the community. The people whom we represent—most of whom have very low incomes may already be consumers of HUD programs or on waiting lists for a variety of HUD programs both generic and disability-specific.

The Arc's deep concern—at the local, state, and national levels—for the availability of a range of housing options in the community is reflected in the opening paragraph of its Mission Statement which is included on the cover page of this testimony. The Arc is grateful for the opportunity to provide testimony to the Subcommittee on the housing needs of people with disabilities. Our recommendations are most detailed in relation to Section 8 tenant-based rental assistance and the Section 811 Supportive Housing for Persons with Disabilities program. However, we have also included comments on a number of other programs.

Housing can be the cornerstone to independence. If a person—with or without mental retardation—has access to decent, safe, affordable housing and appropriate supports in the community, then he or she can concentrate on getting an education, or job training, or a job, and on making friends and being a viable and productive part of the community.

### BACKGROUND

Today, in virtually every part of the United States, people with mental retardation and other disabilities face a crisis in the availability of affordable housing which meets their needs and desires. In cities and towns across the country, hundreds of thousands of people with disabilities are: living in seriously substandard housing conditions; paying 50 percent-75 percent or more of their limited income for rent; living at home with elderly parents; living in restrictive congregate settings; or are homeless. Many others remain in inappropriate institutional settings because there is no housing available to them that they can afford.

People with mental retardation and other disabilities are currently the population group most in need of federal housing assistance. The U.S. Department of Housing and Urban Development (HUD) 1994 Report to the Congress on Worst Case Housing Needs states that people with disabilities often have multiple housing problems and are the group most likely to live in severely inadequate housing. Unfortunately, this 1994 report, as well as a more recent report issued in March of 1996, significantly underestimates the number of people with disabilities who have priority housing needs.

There are numerous reasons why people with mental retardation face a housing crisis, including:

—The lack of a comprehensive federal housing policy for people with disabilities—ranging from rental housing to homeownership;

—Federal, state, and local budget constraints such as the loss of almost all new Section 8 tenant-based rental assistance beginning in fiscal year 1995 and continuing cuts to the Section 811 program;

—The implementation of "designated housing" which already has and will continue to result in a loss of housing options in the community; and

—Continued widespread discrimination and "Not In My Backyard"—"NIMBY" policies.

The designation of "elderly only" subsidized housing is the most recent factor which has contributed to the critical housing shortage for people with disabilities. In 1992 and 1996, Congress passed legislation which permits both PHA's and HUD assisted housing providers to limit or exclude people with disabilities from living in certain subsidized housing developments by designating housing as "elderly only". These public housing and assisted housing developments, which contain virtually all of the studio and one bedroom federally subsidized housing units in the country, make up over two-thirds of the federally subsidized housing resources that low income people with disabilities were eligible for prior to the passage of this legislation.

*Opening Doors: Recommendations for a Federal Policy to Address the Housing Needs of People with Disabilities* developed by the CCD Housing Task Force reports that, from 1993 through the year 2000, the implementation of elderly only designated housing policies will result in at least a 50 percent decrease in the supply of HUD public and assisted housing units previously open to people with disabilities. Overall, based on estimates of the number of people with disabilities who will be displaced from subsidized housing waiting lists, there will be a decrease of at least 273,000 units that would have otherwise been occupied by people with disabilities.

—Already approximately 50 public housing allocation plans that "designate" elderly-only housing have been approved by HUD—leading to approximately 22,000 now elderly-only units. More and more plans arrive at HUD weekly and the Department has estimated that 174 plans will be submitted in the next twelve months.

—Unfortunately, there is no record of how many assisted housing units have been lost. However, a CCD survey of one Michigan county showed that 60 percent of the assisted housing units that once were open to people with disabilities have been designated as elderly-only.

Despite this dramatic decrease in the supply of subsidized housing available for people with disabilities, until Congress acted last year, no new resources for people with disabilities were authorized or no new funds were appropriated to address this loss. HUD continues to ignore the fact that people with disabilities face a housing crisis. HUD's neglect of the needs of people with disabilities last year was bad enough. However, even after Congress added $50 million for Section 8 tenant-based rental assistance for people with disabilities and more funds for the Section 811 program for fiscal year 1997—HUD did not request the $50 million for fiscal year 1998 and, once again, proposed yet another cut to the Section 811 program. Once again, we are dependent on the understanding and wisdom of Congress.

One thing that is very obvious is that the housing lost to people with mental retardation and other disabilities as a result of designating elderly-only housing must be replaced. Where will people with disabilities, many of whom have been on waiting lists for years, find alternative housing resources? What about those people with disabilities who used to be eligible for this housing who will now be turned away? What about those people who are living at home with aging parents, who fear for their children's future? What about those people living in institutions who should be living in their communities?

People with mental retardation and other disabilities are entitled to an equitable share of federal housing resources, even in an era of federal fiscal constraints. Therefore, in order to ensure a "fair share" approach, The Arc makes the following recommendations for fiscal year 1998 based on the documented housing needs of people with disabilities and the housing crisis which they now face.

SECTION 8 TENANT-BASED RENTAL ASSISTANCE

The Arc strongly believes that Section 8 tenant-based rental assistance is one of the most effective tools for helping people with mental retardation live integrated lives in their home communities. For one thing, access to Section 8 assistance helps people with mental retardation afford living in the community. Unfortunately, most people with mental retardation have low paying jobs and they would not be able to live on their own without a rent subsidy. Medicaid is often a source of service funding for people with mental retardation. But, while Medicaid can help people get the services and supports they need, people still need a rental subsidy to allow them to be able to afford a place to live. Access to tenant-based assistance is even more critical now when so many other options have been closed to people with mental retardation.

HUD's fiscal year 1998 budget requests incremental Section 8's only for people in welfare-to-work programs. HUD's budget request—once again—makes no mention of the need for Section 8 tenant-based rental assistance for people with disabilities and ignores the funds that were added for fiscal year 1997. The Department's Section

8 priorities are in direct conflict with HUD's own data that show that people with disabilities have some of the worst case housing needs faced by any individuals in the nation. HUD's actions also are extremely problematic since a bi-partisan effort in Congress authorized and appropriated funds for Section 8's for people with disabilities for fiscal year 1997. Congress recognized the loss of housing as a major problem but HUD continues to refuse to do so.

The Arc seeks your support for continuation funding for the $50 million in Section 8 tenant-based rental assistance specifically for people with disabilities. We urge you to again appropriate funds for this assistance and not rely on the already underfunded Section 811 Supportive Housing for Persons with Disabilities Program. The housing crisis faced by people with mental retardation and other disabilities is getting worse, not better. A one-time infusion of 8,400 Section 8's does little to offset the estimated loss of over 273,000 units. We also urge you to work to ensure that the broadest range of people with disabilities have access to this rental assistance.

SECTION 811 SUPPORTIVE HOUSING FOR PERSONS WITH DISABILITIES

The Arc has major concerns with HUD's fiscal year 1998 appropriations recommendations for the Section 811 program. Reviewed in the context of the immerse housing crisis faced by people with disabilities and on HUD's own (incorrect) view of the Section 811 as "the" disability housing program, the HUD recommendation appears not only to be very poor public policy, but also dangerous to people with mental retardation. Section 811 has expanded the available housing stock and options within communities while assuring a level of individualized supports required by some individuals with severe disabilities. The Arc has many members/chapters who have acquired or developed housing through the Section 811. In most cases, our members will be the first to admit that projects developed in the past have been too large and too segregated. However, for the past seven plus years, we have worked closely with HUD and the Congress to make the Section 811 program into something that can provide small, scattered-site housing in the community for individuals with disabilities.

The Section 811 program has provided people with mental retardation with access to critically needed housing in the community. In many cases, it is this access to that prevents or ends institutionalization. For some people, a group home has been a "layover" on the road to living independently in the community. For other individuals, with ongoing stronger support needs, housing options funded through Section 811 continue to be necessary and appropriate.

The fiscal year 1998 HUD budget proposes $174 million for the Section 811 program. This is the same level of funding that HUD requested last year. Fortunately, Congress ignored HUD's recommendation and added $20 million back to the program for a total fiscal year 1997 appropriation of $194 million. Unfortunately, even that level represents a cut of $193 million from the appropriation for the Section 811 program in each of fiscal years 1994, 1995, and 1996. HUD justifies cuts to Section 811 by stating that all programs need to take a cut. Why then are programs like the HOME and CDBG held sacred and funded at current levels? In addition, why are neither of these programs held more accountable for contributing to the availability of decent, safe, affordable, and accessible housing for people with disabilities?

At the same time that HUD requests less money, the Congress and HUD have directed 25 percent of Section 811 funds to tenant-based rental assistance. While it appears that this rental assistance will be very useful for people with mental retardation and other disabilities, The Arc cannot be the only group to wonder why HUD keeps trying to do more in this program—with less money. This only harms people. The Arc supports tenant-based rental assistance as part of the Section 811 program only if additional funds are added to the program—not subtracted.

The Arc seeks your support for more adequate funding for the Section 811 program. Section 811 is one of those success stories where non-profit organizations have worked in partnership with federal and state governments to provide people with mental retardation and other disabilities with needed housing in the community. We ask that you urge HUD to streamline the program so that the more innovative components of the program can be used more conveniently, such as the acquisition or development of units in condominium, cooperative, and multi-family housing developments. We also request that you urge HUD to include non-profit organizations as eligible applicants for the tenant-based rental assistance funded with Section 811 funds. Non-profits are the traditional HUD partner for Section 811 funds.

The Arc also believes that there are other problematic appropriations issues in addition to the Section 8 tenant-based rental assistance which we are seeking and Section 811.

The Arc seeks your support for requirements that ensure that funds from both the HOME and CDBG programs are targeted to people with mental retardation and other disabilities. These two programs, which never seem to face funding cuts like other HUD programs, currently do little to ensure that there is a range of housing options for people with disabilities in the community. In light of the dwindling resources and options for people with disabilities, both of these locally driven programs should be required to help provide housing for those with the greatest need.

The Arc seeks your support for adequate funds to deal with the Section 8 "renewal crisis". Approximately 15 percent of the people receiving Section 8 tenant-based rental assistance are people with disabilities. Although very few people with disabilities can now access project-based Section 8 units due to the designation of many of these units as elderly-only, there are still many people with disabilities living in these projects who have not been displaced. There are also many people living in disability projects funded under the Section 202 program. It is critical that this crisis be resolved—but not by taking funds from other important HUD programs.

SUMMARY

Thank you for the opportunity to provide you with this testimony. We would appreciate your support. The Arc has historically attempted to work in collaboration with HUD. We have advocated for additional funding for HUD programs; worked for the continued existence of the Department itself; and fought to maintain the Office of Fair Housing and Equal Opportunity at HUD. However, we are very concerned about the Department's continued lack of understanding of the depth and breadth of the housing crisis faced by people with all types of disabilities—including mental retardation and other developmental disabilities—face. The Arc strongly believes that people with mental retardation and other disabilities should have equitable access to all HUD programs. We appreciate your support in the past and hope that we can continue to work with you towards this goal.

---

## PREPARED STATEMENT OF THE AMERICAN NETWORK OF COMMUNITY OPTIONS AND RESOURCES

INTRODUCTION

ANCOR is a nationwide association of over 650 private, non-profit, for-profit and family care agencies that together provide supports and services to more than 50,000 low-income people with mental retardation and other developmental disabilities. Most member agencies support people in group homes, apartments, and other supported living arrangements in the community. ANCOR has twenty-seven years of proven leadership representing private providers of housing options for people with disabilities and it receives no federal funds of any kind.

Unfortunately, all too often people with disabilities have been in the position of competing for scarce resources at national, state, and local levels—competing for housing assistance needed by other low-income households in general and, frequently, in competition with other vulnerable groups, such as people who are elderly. The need for affordable, accessible housing in the community for people with disabilities is tremendous and is increasing each year as a result of the woefully inadequate supply of affordable housing and as a result of units lost because of designated "elderly only" housing.

ANCOR believes it is critical that there be a federal role in housing and that adequate funding for America's most vulnerable citizens—people with mental retardation and other disabilities—must continue in order to open doors to affordable housing in the community.

Unfortunately over the past few years HUD appears not only to have understated the housing needs of people with disabilities in this country, but has failed to lead the way in urging an appropriate federal response. In its last two funding proposals to Congress, HUD did not include any incremental Section 8 tenant-based assistance targeted for people with disabilities even in the face of ample evidence of the devastating loss of public and assisted housing as a result of federal designated housing policy. Remarkably, at the same time, HUD proposed a deep cut in funding to the Section 811 Supportive Housing for People with Disabilities Program.

However, last year this Subcommittee took a stand to ensure that people with disabilities were not forgotten. Due in no small measure to this Subcommittee's sense of equity and commitment to protecting America's most vulnerable citizens, a first step was taken in restoring some of the housing lost to people with disabilities as a result of recent federal housing designation policies. Although this issue appears to have escaped the attention of HUD—it did not escape the stewardship of mem-

bers of this Subcommittee when it approved a separate $50 million appropriation for tenant-based assistance specifically for people with disabilities last year. This Subcommittee has helped to lead the way in correcting a mistaken message sent to people with disabilities—that their housing needs were no longer important to the elected officials in Washington.

INCOMPLETE HOUSING DATA UNDERESTIMATES NEED AND DISTORTS LINK TO ALLOCATION

For many adults with mental retardation and other developmental disabilities, the Supplemental Security Income (SSI) upon which they depend, is totally inadequate for rent. On average, adults with mental retardation and other disabilities receiving SSI have an annual income less than 20 percent of median income and are unable to afford housing without assistance. On the average nationally, without assistance, it takes nearly 66 percent of a monthly SSI check to pay the rent for an efficiency apartment.

HUD's 1994 Report to the Congress on Worst Case Housing Needs and its subsequent report in 1996 stated that people with disabilities often have multiple housing needs and are the group most likely to live in severely inadequate housing. But in spite of this evidence, HUD has not included adequate funding in its budget proposal again this year to begin to address the known housing crisis.

According to *OPENING DOORS: Recommendations For A Federal Policy to Address The Needs of People with Disabilities* prepared by the Washington-based Consortium for Citizens with Disabilities (CCD) Housing Task Force and the Technical Assistance Collaborative, Inc. of Boston, Massachusetts, HUD's reports significantly understate the housing needs of people with disabilities. The 1996 OPENING DOORS report estimates that for people with disabilities, there were 1,792,000 worst case housing needs as compared to HUD's estimate of 170,000. On top of this critical shortage in housing, the CCD report also estimates a loss of more than 270,000 federally subsidized housing units for people with disabilities over a five year period due to the impact of recent federal designated housing policy.

ANCOR believes that this loss of units to people with disabilities—with the concomitant result that these units are added to the stock of housing available only to elderly people—represents the largest single shift in housing in our nation's history. ANCOR continues to believe that the changes in federal housing law and the subsequent shift in housing assistance requires an immediate response by the federal government.

As of June 1996, 58,400 people still resided in state operated facilities for people with mental retardation and other disabilities. This sizable pent-up demand for housing in the community, however, does not reflect the number of people on statewide waiting lists for residential and support services in the community. A limited survey of some of ANCOR's members recently provided the following information regarding the number of people with mental retardation/developmental disabilities on these waiting lists: Arizona (138), Colorado (1,200), Illinois (4,500), Indiana (2,900), Kentucky (1,138), Maine (330), Maryland (5,000), Massachusetts (2,958), Michigan (3,173), Minnesota (2,500), New York (5,439), Oklahoma (1,468), South Carolina (1,300), South Dakota (23), Washington (2,800), and Wisconsin (8,900). According to ANCOR's affiliate in New York—at the current rate of development, the parent of a child with developmental disabilities must wait until the year 2027 for a community residential opportunity.

All of the above statewide figures provide information only something about the number of people with mental retardation and/or developmental disabilities. This data does not reflect the number of people with other disabilities in need of affordable housing. Nor do these statistics reveal what is most important—the real human lives behind those numbers.

ANCOR recommends that the Congress request a report by the U.S. General Accounting Office on the housing needs of people with disabilities. It is imperative that HUD and the Congress have reliable data with which to assess the housing needs of people with disabilities, including the impact of recent federal housing designation policy on public and assisted housing stock, as well as the level of resources allocated to address the shortage in housing. In other words, Congress needs a credible baseline from which to ascertain the growing gap in housing assistance for people with disabilities and in order to determine future allocations of scarce resources. It is also important that the study complete an inventory and a review of the utilization of all HUD housing assistance that should be available to people with disabilities—including other HUD mainstream housing resources such as the HOME and CDBG programs.

However, exploring the problem in greater detail will be fruitless, if our nation's housing policy and federal expenditures are not directed to address the documented acute housing needs of people with disabilities.

Therefore, ANCOR recommends that the Congress be consistent in its policy by appropriating adequate funding for HUD programs specifically designed to address the housing needs of people with disabilities and to direct HUD to promote the utilization of mainstream housing programs in order to increase physical accessibility and rehabilitation of existing rental properties, development of new affordable rental housing, and creation of homeownerhsip.

TENANT-BASED RENTAL ASSISTANCE

Tenant-based rental assistance is one of the nation's most effective ways to provide housing for people with low and very low incomes, including people with disabilities. It provides an opportunity for people with disabilities to exercise choice in obtaining affordable housing in the private market, thus empowering them to become full fledged members of our nation's communities. However, for the past two years HUD has failed to provide any incremental Section 8 tenant-based rental assistance targeted for people with disabilities, even as it targets assistance for others in need.

ANCOR recommends a separate appropriation for $50 million in new Section 8 tenant-based rental assistance designed specifically for people with disabilities in fiscal year 1998 to continue efforts to address the housing gap and to replace lost housing as a result of federally designated housing policy.

SECTION 811 SUPPORTIVE HOUSING FOR PEOPLE WITH DISABILITIES

Some people with disabilities of all ages require supports, beyond merely rental assistance, to live in the community. The Section 811 program has proved to be one of HUD's most successful programs, investing federal funding to increase housing stock available to people with disabilities who have need for an array of intensive supports to live in the community. It is unique in that the program provides a "housing partnership" structure with local nonprofit organizations to develop supportive housing through a direct grant accompanied by project-based rental assistance. The Section 811 programs should not, however, be relied upon as the only mechanism for addressing the broad range and growing housing needs of people with disabilities.

Nor should Section 811 program funds be reduced at a time when there is also a crisis in affordable housing for people with disabilities. Although ANCOR applauds the efforts of HUD to "avert the Section 8 contract renewal crisis," it is misleading to Congress and to others to say it is doing so without harming other programs. HUD is proposing $174 million for the Section 811 program—a $193 million funding cut over fiscal year 1995 and fiscal year 1996 levels.

ANCOR recommends fiscal year 1998 appropriations of $265.74 million (fiscal year 1996 funding level of $258 plus a three percent inflation factor) for the Section 811 Supportive Housing for Persons with Disabilities Program for capital grants and tenant assistance.

The Section 811 Supportive Housing for Persons with Disabilities Program, like its sister program—Section 202 Supportive Housing for the Elderly Program—was designed to be administered solely by non-profit organizations, respecting the strong belief in the innovation of the public-private partnership. The Section 811 program funding should be made available only to non-profit organizations.

ANCOR recommends that Congress provide the HUD Secretary with waiver authority to permit private non-profit organizations to administer Section 811 tenant-based assistance. (Currently, only public housing authorities can administer the 25 percent authorization for tenant-based assistance under the Section 811 program.)

---

## PREPARED STATEMENT OF JOHN R. WODRASKA, GENERAL MANAGER, METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

FISCAL YEAR 1998 APPROPRIATIONS FOR THE U.S. ENVIRONMENTAL PROTECTION AGENCY

The Metropolitan Water District of Southern California (MWD) is pleased to submit comments for the record, regarding programs contained in the U. S. Environmental Protection Agency's (EPA) fiscal year 1998 budget for your Subcommittee's hearing on April 8, 1997.

MWD is responsible for meeting the supplemental water requirements of 16 million people living in the Southern California coastal plain. Of particular interest to

MWD and our 27 member agencies are those federal programs that provide assistance and facilitate partnerships for addressing critical water quality issues.

MWD urges that you provide the full amount authorized by Congress for the Safe Drinking Water Act (SDWA) State Revolving Fund for fiscal year 1998, increased amounts for drinking water research, and that you fully support the President's proposed fiscal year 1998 budget for other EPA programs benefiting drinking water quality. While significant progress has been made in improving the quality of our nation's water, many surface and ground waters do not meet water quality standards. Further, as our understanding of the relationship between the contaminants found in our water supply and their effect on human health increases, new risks have been uncovered. Adequate protection of drinking water quality requires research to identify health effects, contaminant sources, and effective control methods; financial assistance for implementation of water treatment and source water protection measures; and compliance monitoring to ensure existing laws and regulations are upheld.

DRINKING WATER AND SOURCE WATER PROTECTION ACTIVITIES

MWD supports the President's request for $98 million for drinking water and source water protection activities within the Environmental Programs and Management Appropriation Account. It is MWD's goal to supply safe water that meets or surpasses state and federal standards and will achieve the highest standards of customer satisfaction.

MWD has devoted a significant amount of time and funding to disinfectant/disinfection by-product (D/DBP) treatment technologies. Staff have also actively participated in the regulatory negotiation of the D/DBP rule and the current EPA D/DBP workgroup to ensure a reasonable health protective cost-effective regulation. The $73.9 million is necessary for EPA to develop these regulations.

MWD actively participated in the development of language on reasonable source water protection incentives in the 1996 SDWA. Programs for adequate protection of sources of drinking water will improve public health protection and reduce treatment expenses. MWD strongly supports the $23.4 million allocated for source water protection.

DRINKING WATER RESEARCH

Research is the foundation upon which effective drinking water quality programs are built, and MWD asks you to provide additional support to various EPA water quality-related research programs. The 1996 SDWA made clear that more research is needed to resolve critical questions on health effects of pathogens, arsenic, and disinfection by-products. Consequently, we are very concerned that the proposed fiscal year 1998 EPA budget provides about $3.5 million less for drinking water research than in fiscal year 1997. Increased funding is needed for research to help protect against such waterborne pathogens as Cryptosporidium and assist in developing cost-effective regulations for DBP's and arsenic.

We urge you to support the addition of $5 million to be earmarked for the American Water Works Association Research Foundation (AWWARF) for critically needed research on pathogens, DBP's and arsenic. We also request the addition of at least $1 million for arsenic health effects research to be earmarked for EPA to use to support its recently signed Memorandum of Understanding with AWWARF and the Association of California Water Agencies. Additional research on the health effects of arsenic is critical in order to determine whether existing regulations are sufficiently protective of human health. MWD has already committed $50,000 of its own funds for arsenic research and many other drinking water suppliers have made similar financial commitments.

We request that you support funding of $45.4 million for drinking water research for fiscal year 1998 Pathogens, DBP's, and arsenic are just three of the drinking water contaminant issues that the EPA needs to address through research. Even greater funding will ultimately be necessary to fully address these and other drinking water contaminants.

ECOSYSTEM AND HUMAN HEALTH PROTECTION RESEARCH

Other research programs that need your support include EPA's request for $105.5 million for the Ecosystem Protection Research program, that will provide environmental monitoring data and add to our understanding of wetlands and other important aquatic ecosystems. Wetlands act as a natural "cleansing" medium and help protect the quality of our nation's drinking water. Further, EPA's request for $53.6 million for the Human Health Protection Research program should help promote wiser spending of limited economic resources on environmental human health prob-

lems by developing a better understanding of the linkage between environmental contaminants and the true threat they pose to human populations.

DRINKING WATER TECHNICAL SUPPORT CENTER

The 1996 SDWA will continue to require extensive monitoring and accurate laboratory analysis of very complex regulations, such as the implementation of the Information Collection Rule. Resources have been allocated for drinking water technical support and MWD supports the $1.7 million for this technical assistance.

DRINKING WATER—PUBLIC WATER SYSTEMS SUPERVISION PROGRAM GRANTS

EPA's fiscal year 1998 budget allocates $93.8 million for Public Water Systems Supervision Program grants. This funding is necessary for states to implement the 1996 Safe Drinking Water Act regulations.

STATE REVOLVING FUNDS

EPA's recently released ''Drinking Water Infrastructure Needs Survey'' reported that the nation's community water systems estimate they must invest over $138 billion in the next 20 years to ensure delivery of safe drinking water. Of this amount, approximately $12 billion is needed to meet current Safe Drinking Water Act requirements. Low-cost financing for projects which ensure safe drinking water supplies is critical for protecting the health of the more than 240 million Americans served by public water systems. The 1996 SDWA made available, for the first time, low-cost financing for drinking water infrastructure and source water protection projects through a drinking water State Revolving Fund (SDWA-SRF). The SDWA–SRF is also a source of funding for source water assessment, administering state Public Water Supply Supervision activities, development and implementation of ''capacity development'' programs and operator certification programs, and for health effects research.

Adequate funding for all of these activities is essential, and MWD strongly urges that you provide $1 billion for the SDWA-SRF, the amount authorized by Congress for fiscal year 1998. This amount, while greater than the amount requested in the President's budget, is still only a small fraction of the funding needed by drinking water suppliers to meet existing Safe Drinking Water Act requirements.

Significant investments are also needed to repair and replace aging municipal wastewater infrastructure as well as to meet the needs of future population growth. Low-cost financing is necessary to support the estimated $137 billion of municipal water quality infrastructure needs over the next 20 years as well as capital investments to protect against nonpoint pollution sources. The President has requested $1.075 billion for fiscal year 1998 for the Clean Water Act State Revolving Fund (CWA-SRF) to support such activities which are also vital for ensuring protection of drinking water sources. MWD asks that you support the President's budget request.

NONPOINT SOURCE GRANTS

Another critical source of funding for source water protection projects is grants under the Clean Water Act's Section 319, Nonpoint Source Program (NPS). NPS grants are particularly important for smaller projects and projects where debt financing is unsuitable. Further, the NPS grant program is necessary to support the many watershed management activities fostered by the states. The President has included $100 million for NPS grants for fiscal year 1998, and MWD requests your support of this funding.

Other EPA grant programs which help maintain or improve water quality and need your support are the Section 106 Control Agency Resource Supplemental Grants ($95.5 million), Wetlands Program Development Grants ($15 million), and the Water Quality Cooperative Agreements ($20 million). Your support for the President's fiscal year 1998 budget request for the above programs will ensure that EPA can carry out its mission.

I would also urge your Subcommittee to support the funding request contained in the Administration's fiscal year 1998 budget for the Bureau of Reclamation for efforts aimed at restoring the Sacramento/San Joaquin Bay-Delta Estuary in Northern California.

We look forward to working with you and your Subcommittee. Please contact Brad Hiltscher, MWD's Legislative Representative in Washington, D.C. at (202) 296–3551, if we can answer any questions or provide additional information.

PREPARED STATEMENT OF RODNEY DEHAN, GROUND WATER MANAGER, FLORIDA DEPARTMENT OF ENVIRONMENTAL REGULATIONS AND GROUND WATER PROTECTION COUNCIL

Mr. Chairman, my name is Rodney DeHan, I am the Ground Water Manager for the Florida Dept. of Environmental Regulations and a Board Member and President of the Ground Water Protection Council (GWPC). This testimony is submitted on behalf of the member states of the Ground Water Protection Council who together have primary enforcement authority for over ninety percent of the approximate one and a half million injection wells in the United States. Last year this Committee provided $10.5 million to the state UIC regulatory agencies for their continued operation and enforcement of the national underground injection control programs and we'd like to thank you for that.

The national Underground Injection Control (UIC) program is authorized in provisions of the Safe Drinking Water Act and its Amendments. The administrative and enforcement responsibilities of this program have been delegated to the states for this, the nation's largest and most comprehensive ground water protection program. Injection wells range in nature from very high-tech deep disposal wells which inject hazardous and nonhazardous waste at depths from three to twelve thousand feet underground, to simple dry wells which are used by mom-and-pop service stations, family industries, small businesses, farmers, and municipalities. Also included in the family of injection wells are the approximately 175,000 wells used by the oil and gas industry for salt water disposal and secondary recovery operations. Each year these wells re-inject over a billion barrels of salt water brought to the surface commingled with oil and gas production. Solution mining wells used to recover salt, sulfur and other minerals are the remaining type of injection well.

As regulatory programs, the Class I, or hazardous waste disposal wells and Class II, salt water disposal wells, and Class III, solution mining wells, are fairly mature. These types of wells have been used by the respective industries for decades and because of the relatively small number and the concurrent high technology being applied to their operation, they pose less risk to ground water than do the well over one million Class V, or shallow injection wells, some of which can be found in every Congressional District of the United States. Yet, these mature programs have worked only because of the state's ability to inspect and monitor their operations. When properly sited and routinely inspected these are among the safest means of liquid waste disposal available. However, the continued future success of this process is in increasing jeopardy if additional funds are not added to the UIC program at the federal level.

With that in mind, I'd like to address the Class II well program first.

Affecting approximately 32 oil producing states is the decline which we are experiencing in the total production and price of oil. It is typical that as oil production declines, the amount of produced salt water increases. Every barrel of oil which is produced may be accompanied by as many as 30 to 40 barrels of salt water. This salt water is extracted from oil bearing strata and brought to the surface along with the oil. It must then be carefully reinjected far below the lower most underground source of drinking water. Failure to inject or improper injection causes severe and lasting damage to the environment and underground drinking water supplies.

With the decline in the price of petroleum and the increase in environmental regulations many oil wells are no longer profitable and have been shut down. This could be an even greater threat to ground water since an inoperative well can still do serious damage to the environment. Under law, well operators have two options. They must either file for temporary abandonment or plug their wells and furnish the appropriate regulatory agency with evidence that the well has maintained its mechanical integrity. The majority of these wells are not owned by major oil companies. Most are locally owned by small business or are mom and pop operations. Either way, our workload at the state regulatory agencies has dramatically increased and will continue to do so. This is because we try to have a field inspector present to observe mechanical integrity tests concerning operation of a well. In cases of a temporary abandonment, our geologists and engineers must carefully review and either approve or reject the evidence demonstrating the mechanical integrity of a given well.

We have also been affected by increased federal reporting requirements to the EPA and significantly more administrative paperwork not to mention the federal budget crisis. The result has been that while our workload and responsibilities have been substantially increasing, our budget has been decreasing.

A second concern, of equal importance, is related to the Class V, or shallow well program. Shallow wells are of simple construction, compared to the other types, and are in daily use by families and small businesses, farmers, small municipalities,

and, unfortunately, also pose a significant risk to the nation's ground water resources. We believe many of these wells, acting as conduits, are allowing the "mainlining" of hazardous wastes commonly found in every day family and manufacturing uses, directly into underground sources of drinking water. The regulatory program for inventorying, inspecting, closing, remediating, and monitoring these wells is new by comparison to the other types of injection wells mentioned previously. As the state regulatory agencies with the responsibility for implementing this regulatory program, we are very concerned because these shallow injection wells may pose the greatest risk of all known point sources for contaminating ground water. We believe that by providing more, and better trained state inspectors and enforcement officers, and more extensive public education and outreach, the general public, who own and operate, and whose own drinking water is affected by these simple shallow wells, will comply with this regulatory program thereby diminishing this substantial risk to local ground water supplies. What the states lack, however, is enough money to do our job to the degree you and we would like. As the front line agencies charged with running this federal ground water protection program, states must have additional resources to hire more inspectors and enforcement officers to find these wells and to work with local city councils, planning commissions, and water agencies, to inform them of the hazards surrounding the use of these wells and suggesting to them best management practices that can be used with these shallow injection wells.

The goal of providing more effective enforcement and subsequently promoting pollution prevention activities comes down to money. The Underground Injection Control Program receives $10.5 million for the operation of a program to regulate all four types of wells in every state. The USEPA will propose stricter Class V well regulations, which will add another layer to the already overburdened state agencies who must enforce this federally mandated ground water protection program.

There is a way to enforce this program immediately and to pay for it. If EPA was provided an additional $5.5 million next year for the specific purpose of providing additional enforcement presence in each state, there would be a positive impact in ground water protection. Congress would have to mandate the specific use of these funds—to require immediate direct enforcement through each state underground injection control program. Nothing could relieve existing ground water pollution threats more than this clearly defined use of additional funds.

To obtain these pollution prevention funds, Congress might consider shifting money from a pollution clean up program. Enhancement of the shallow well program and more wellhead protection planning would ultimately result in less money being needed in pollution clean up programs. Proposals to spend more money on these other programs, with no new funding for the enforcement of this pollution prevention program, causes an imbalance in EPA enforcement efforts that was probably unintended by both EPA and Congress. Simply as an example, if funding for the UST program grew more slowly, the UST program would still continue to grow as the financial capacity of small communities expands to allow them to replace damaged tanks. However, if at the same time the communities were to engage in locating and closing shallow injection wells, much of which can be done with local staff and resources already invested, they would be preventing future problems from occurring in the first place.

In short, Congress should consider moving funding (or use funds from cleanup programs) to balance the enforcement efforts for the prevention of the disposal of pollutants into underground sources of drinking water. In addition, this would be 100 percent available for in-the-field enforcement activities. It is the first step in eliminating them as a source of future pollution.

The level of federal assistance provided to the states for the enforcement of federal UIC regulations has not increased as our federally mandated responsibilities have grown. The federal funding was $10.5 million last year and $10.5 million for the five years before that.

All of the 23 Primacy States have reported current funding shortfalls. The average shortfall for the States was over $350,000. Funding shortfalls have impacted most areas of the Class II program. The areas of field inspections and risk assessment were most commonly impacted. Personnel shortages were mentioned by many states.

For the Class V program, a review of 1996 expenditures indicated that the majority of states do not actively regulate all shallow injection well types, but focus only on polluting wells due to the lack of funding. This lack of attention to other high risk well types only serves to hasten the day when they will be a clean-up problem.

In closing, we are requesting that the Congress consider an additional $5.5 million funding in order to provide additional enforcement support for the underground injection control programs in each state. In addition, we would like to request an

additional $400,000 to sustain the Ground Water Protection Council's highly successful education and training program used by the states which will help them integrate their UIC program and wellhead protection planning into the national ground water protection program. The beneficiaries of this effort are our friends and neighbors who would be more knowledgeable about, and more able to, protect their local ground water supplies through their own efforts.

---

LETTER FROM NICHOLAS A. DIPASQUALE, PRESIDENT, SOLID WASTE MANAGEMENT OFFICIALS

ASSOCIATION OF STATE AND TERRITORIAL
SOLID WASTE MANAGEMENT OFFICIALS,
*Washington, DC, April 4, 1997.*

Hon. CHRISTOPHER S. BOND,
*Chairman, Subcommittee on VA, HUD and Independent Agencies Appropriations, U.S. Senate, Washington, DC.*

DEAR SENATOR BOND: It is the practice of the Association of State and Territorial Solid Waste Management Officials (ASTSWMO) to provide comment from the perspective of the State program managers of solid and hazardous waste concerning the annual environmental budget proposed by the U.S. Environmental Protection Agency (EPA). Your Appropriations Subcommittee will soon conduct hearings regarding the EPA's fiscal year 1998 environmental budget proposal, and we know that you will move swiftly to finalize your recommendations for the full Appropriations Committee.

ASTSWMO is a nonprofit association whose members are the directors of the State solid and hazardous waste regulatory programs. We believe that our members, as practicing waste managers implementing State and certain delegated federal program activities, have gained practical insights into the operation of the statutes and regulations which make up national policy for solid waste management and remediation programs. Consequently, they are well positioned to advise the Subcommittee regarding budgetary implications for those programs. We believe that as State program implementers, we have a special responsibility to address the budget for the national waste programs, and to share that evaluation with your Subcommittee. We trust the Subcommittee will recognize that our views are entirely bipartisan, representing the professional opinions of State government managers who, like you, must balance resources with genuine environmental needs. We have no special interests other than to ensure that we can carry out effective, environmentally sound programs in the manner prescribed by federal and State statutes and regulations. We respectfully request that this letter be made a part of the record of your Subcommittee's consideration of EPA's fiscal year 1998 proposed program.

Your Subcommittee has a very strong track record in support of sound State waste management programs and I would like to express our continued appreciation for that support. We are especially grateful for your recommendations in fiscal year 1997 which held State program grants harmless from the turmoil of the EPA budget debate, and for the substantial restoration made to the very important LUST appropriations used by States to fund cleanups.

In this letter, we would like to address several of the waste-related issues in the fiscal year 1998 budget, those affecting State grant programs for hazardous waste and underground tank management, the federal Superfund program and its relationship to State cleanup programs, and the funding for the Leaking Underground Storage Tank (LUST) program. These are critical elements of the national environmental budget for our activities, and we want to share our views with you.

STATE GRANT PROGRAM SUPPORT

The basic State hazardous waste program needs are provided for in the categorical State grant programs which the Congress has wisely compartmented into the new State and Tribal Assistance Grants account. We urge the Subcommittee to continue its support of this important account at least at the fiscal year 1998 levels proposed by the Administration for hazardous waste assistance ($98,598,200) and underground storage tanks regulation ($10,544,700). However, these are virtually zero growth levels that do not account for greater reliance being placed on State management of these programs. The increase of only $300,000 in the hazardous waste assistance and no increase in the tanks regulation grants are insufficient even to cover inflation losses over the last year and will not contribute to any real improvement in either of these program areas. We also support the modest levels of the proposed pollution prevention grant funding ($5,999,500), but note that these

too reflect zero growth from fiscal year 1997. Additionally, we are concerned that these grants continue to be focused on small demonstration projects rather than on assisting the comprehensive institutionalization of pollution prevention within States programs. Looking at the whole of the waste prevention program grants, the static levels hardly reflect the Administration's stated theme of enhanced prevention of future remedial waste sites.

It's important that the Congress continues to understand that these federal grant funds only supplement State program funding. Despite greater and greater emphasis on devolution of more waste program elements to States, these federal funds have not been increased for some time, and the ability of States to provide any greater share of support is minimal. Consequently, we cannot overemphasize the importance of maintaining the proposed levels of funding for these State waste programs as an absolute minimum. Realizing the difficulties your Subcommittee faces in finding additional funding for any program this year, we still would suggest that these prevention programs are logical candidates for a modest increase over the proposed levels.

SUPPORTING FEDERAL PROGRAMS

Most States do not have the vast technical capacity available to the federal government, and in many ways we are dependent upon the EPA for technical assistance. For that reason, we would ask that the Subcommittee be selective in its directions and appropriations to that Agency as you address the internal Agency budget for such areas as general funding support for science and technology, hazardous waste, solid waste, underground tanks, pollution prevention, and CERCLA and LUST cleanup program offices. When these office appropriations are cut without guidance to continue support for States, the State programs dependent upon technical assistance from EPA effectively lose resources as well. We recognize the need to make the federal government more efficient and to economize, but we would caution that the indirect effects upon States need to be carefully considered by the Congress as it downsizes federal programs.

TRUST FUND SUPPORT FOR BOTH NATIONAL AND STATE CLEANUPS

Many observers consider the CERCLA or Superfund program to be an entirely federal effort, but to those directly involved with the implementation of the program, it is apparent that States are substantially involved in the decisions and execution of these cleanups. States are required to make a match of ten percent of remedial action costs borne by the trust fund, and they are heavily involved in site-specific decisions in those cases. The Congress recognized the necessity for meaningful State involvement in the CERCLA decision making process and codified requirements at Section 121(f) of the statute. However, the capacity to provide such meaningful State involvement does require State resources. EPA has responded by supporting basic State program structure through very modest levels of CORE grants, and by funding assistance through cooperative agreements for the development of State capabilities for the conduct of some program elements such as preremedial investigations and emergency response. State cleanup programs are very interactive with federal Superfund activities and, as a result, State waste managers are generally supportive of EPA's Superfund program requests for CERCLA cleanups.

We are supportive of this year's goal for the Hazardous Substance Response Trust Fund (or Superfund) of accelerating the site cleanup and completion rates. The NPL pipeline is now full with a backlog of sites awaiting cleanup funding, and we agree that with continued improvements and efficiencies, we should expect greater progress in cleanup completions. However, to be quite frank, we don't know whether there is enough pending work for the full $700,000,000 in additional funds requested in fiscal year 1998, nor that the infrastructure exists to spend it effectively. While we could support a significant increase in Superfund appropriations in fiscal year 1998 if the funds can be constructively used for cleanup activities and properly coordinated with States, we still remain concerned that we would be increasing the spend-down of the trust fund at a time when there are no new revenues restoring that fund. We are worried that this could create a crisis situation in the reauthorization process if the fund revenues are not restored before legislative reform.

Should Congress, after a thorough review of EPA's planning for the additional $650 in NPL cleanup activities, see its way clear to increasing Superfund cleanup appropriations in fiscal year 1998, we strongly recommend that it be conditioned upon early and complete consultation with States, and require careful cooperation with State managers in order to improve the efficiency and applicability of cleanup decision-making. States must agree with the work schedules to maintain meaningful involvement of scarce State technical resources in the process, and to be able to

meet their cost share of any additional fund-financed cleanups. We also believe enhanced State involvement will contribute positively to remedy selection decisions, and add to the efficiency and cost effectiveness of the cleanups.

The final point we would like to address is the fiscal year 1998 appropriations level for the Leaking Underground Storage Tank (LUST) program. The Congress made a remarkable difference last year when it increased the funding level for fiscal year 1997 to $60,000,000, up 25 percent from the inadequate fiscal year 1996 level of $45,000,000. Yet, this program was funded in fiscal year 1995 at a level of $69,914,000, and we believe that was a more accurate reflection of need. This year, the Administration has recommended a level of $71,210,700 for fiscal year 1998, and we strongly urge the Subcommittee to support that level.

You may wonder why we would focus so heavily on this waste program area, as it is not the largest, nor the most central to our overall membership. That is simply because we think it is the single waste program most vulnerable to failure if it is inadequately funded over time. This program will be around for a long time, and the mistaken impression given a few years ago that EPA was going out of the LUST cleanup business is simply wrong. A vast inventory remains to be addressed. Our understanding of the available data is that of an estimated 317,488 tanks with confirmed releases, the cumulative cleanups through fiscal year 1996 of 152,683 still leaves us with 164,805 tanks to be cleaned up. Consequently, it is obvious that there are more than a few years work remaining to be done, even if no more leaking tanks were confirmed. Leaking underground storage tanks represent one of the major sources of ground water contamination in the country, and this cleanup program is one that has resulted in direct and immediate environmental results.

We are tracking the ongoing upgrade tanks program and conclude that only 29.7 percent of the existing, active underground tanks now meet the 1998 technical compliance standards. That means a great deal of upgrading work remains to be done. Because a major source of LUST cleanup candidates comes from the universe of tanks being uncovered for upgrade to technical compliance, we think this means that a great deal of remediation work remains undiscovered. As those older tanks are uncovered and upgraded, it is our experience that many more releases will be discovered and added to the LUST funded inventory for cleanup. It also means there is a great deal of regulatory compliance work ahead for State programs.

Individual State tank cleanup funds simply cannot complete this cleanup task unaided by the federal government. EPA has estimated that on average, at least 85 percent of the total LUST appropriation is provided directly to States under cooperative agreements. Many States use this source of federal funds to provide technical oversight of responsible party cleanups, and this is accomplished by skilled, qualified State employees. Many States still have not recovered from the 34 percent reduction in LUST funding in fiscal year 1996, and are struggling to maintain their current cleanup progress. To maintain our level of effort and achieve a little gain in this uphill cleanup effort, States need the additional $11,210,700 this year's Presidential budget proposes. This is not a case where we question the ability to use the additional funds for cleanup. We know the work is there, and the State infrastructure exists to spend it wisely and efficiently.

In closing we thank you for your consideration of our views and for your past support of waste program efforts. Your Subcommittee has been the key to adequate funding in the difficult budget years just past and we have great confidence that you will be central to a successful outcome for the fiscal year 1998 process as well. We are ready at any time to assist your staff in exploring our proposals in greater detail, and would welcome their inquiries. Should you consider it useful to the Subcommittee, we would volunteer to testify on any aspect of our program knowledge as you proceed with the difficult task of evaluating national needs and making the hard choices that lie ahead. Please contact ASTSWMO's Executive Director, Thomas Kennedy, at telephone number (202) 624–5828 or fax number (202) 624–7875 for any further information or assistance.

We hope that our information will constructively assist you in that task. Thank you for your past support of waste program efforts, and for your consideration of these recommendations.

Sincerely,

NICHOLAS A. DIPASQUALE,
*President, ASTSWMO.*

---

PREPARED STATEMENT OF THE CITY OF MIAMI BEACH, FL

Mr. Chairman and Members of the Subcommittee: The City of Miami Beach would first like to thank the subcommittee for all its diligent efforts throughout the

past to assist local governments in need. Now, as you begin the long and tedious process of crafting the fiscal year 1998 VA, HUD and Independent Agencies Appropriations Bill, the City of Miami Beach would like to request the subcommittees assistance with regards to two important initiatives.

The first project for which the City is seeking assistance is the Coastal Erosion Prevention Initiative. The City of Miami Beach, being entirely located on a barrier island, is surrounded by beaches on one side and canals on the other. This situation makes erosion control one of the most important issues for the City as well as the State of Florida, and one that desperately needs addressing.

The City of Miami Beach has approximately 39 miles of waterfront properties with seawalls. The seawalls act as a barrier which protects properties from tidal action. Loss of seawalls can result in loss of property and pose a danger to waterway navigation. Individual property owners are responsible for the maintenance and repair of seawalls, but the City is required by law to protect property and life and, therefore, maintains the responsibility for ensuring that the seawalls are adequately repaired or replaced.

The existing situation with regards to the City's seawalls is that they are in extreme disrepair. Years of marine traffic and harsh weather have left a system of seawalls which are crumbling or washed out, and these damaged seawalls are having a direct and damaging effect on property owners, as well as the roadways and bridges that connect the City to the mainland. In addition to the damage that lies below the waterline, the tops of these seawalls have been eroded by wind and rain, providing an unattractive and potentially dangerous situation for both residents and tourists.

As a result of this situation, the City of Miami Beach has developed a proposal to reconstruct the public seawalls in a way that will make them more durable, while at the same time making them more aesthetically pleasing and environmentally friendly. The proposed project would cut off the existing seawalls at the water line, leaving the underwater wall intact—replacing the wall in areas where the underwater wall is damaged or compromised. At the water line, large boulders would then be brought in and placed along the waterline with additional boulders being stacked at a 45 degree angle to a level comparable with the top of the previous seawall. These boulders will provide the same erosion control as the former wall, but with much less potential to fail after years of use. The City will plant native coastal species along the edge of the breakwater to stabilize reinforce and protect the shoreline. Once this "living seawall" is in place the City plans to complete the project with the installation of an interpretive trail/bikepath and other access improvement to creating a much more effective erosion control device and urban wetland preserve and waterfront park for public enjoyment.

The second part of the Coastal Erosion Prevention Initiative centers around the beachfront coastline of Miami Beach. As you may know, beaches are Florida's number one tourist attraction, as well as being a vital front line defense for our multibillion dollar coastal infrastructure. Wind, storms and at times hurricanes do great damage to the vegetation and coastal forests that shield the adjacent structures, and once these trees and plants are gone, sand freely blows inland causing damage to other delicate ecosystems located further in from the beach. The City of Miami Beach, in order to prevent further ecological damage, proposes the restoration of specific coastal species of grasses and trees to assist in providing an anchor for existing dunes and sand on the beach.

The City of Miami Beach requests $1.5 million from the subcommittee to begin construction of the first part of the project which would create the "living seawall" and to implement a study with regards to the reintroduction of native plant species on the City's beaches. Any assistance the subcommittee could provide would be greatly appreciated by the residents of Miami Beach, in addition to the many tourists who visit the City each year.

This brings us to the next item, Miami Beach's water and sewer system, for which the city seeks assistance.

DESCRIPTION OF THE EXISTING WATER SYSTEM

The City of Miami Beach owns, operates and maintains the potable water system serving customers within the corporate limits. The potable water facilities include a water distribution system extending throughout the city, five existing water booster pump stations, and four welded steel ground storage tanks. A sixth water booster pump station is planned for location on the MacArthur Causeway at Terminal Island. Two elevated water storage tanks are located in the south area of the City; however, both have been removed from service and at this time there are no plans for future use of these tanks. The city's potable water is supplied exclusively by the

Miami-Dade Water and Sewer Department (WASD), the department of the County that oversees operation of the County's water and sewer system.

Because the City of Miami Beach is a coastal barrier island surrounded by salt water, it was not practical or economical to develop its own water supply system. The least costly and highest quality water comes from the Biscayne Aquifer water supply wells located on the mainland and owned and operated by the County. The city maintains four large diameter metered supply interconnections with the County's distribution system.

Previously, the potable water supply for many of the neighboring municipalities passed through the City's distribution system. In 1989 all of these municipalities, with the exception of one, were disconnected from the City's distribution system. The disconnection of this last municipality is presently being completed.

The water distribution system has approximately 157 miles of water mains ranging from 6 inches to 36 inches in diameter. The water distribution system currently serves approximately 11,123 retail customers. The water distribution system serves 958 fire hydrants and 622 fire lines, and has 23,000 valves of various sizes. The system has 11,415 service connections.

Total water consumption in fiscal year 1994 was in excess of 24 m.g.d.

DESCRIPTION OF THE EXISTING WASTEWATER SYSTEM

The City owns, operates and maintains the wastewater collection and transmission system serving customers within the corporate limits. All land usage must connect to the sanitary sewer system as a matter of City policy, and there are no septic tanks in operation within the City. The system consists of 152 miles of lines, including both gravity sewers and pressurized force mains, and 23 wastewater pump stations. The wastewater system currently serves approximately 9,636 retail customers.

All wastewater generated within the City is sent to the WASD Central District wastewater treatment plant on Virginia Key for treatment and disposal. The 54-inch force main which conveys the wastewater to the plant is a subaqueous force main running from South Pointe under Government Cut to Virginia Key. This force main is owned and maintained by WASD. The County's wastewater collection, transmission and treatment system is divided into three districts referred to as the North, Central and South Districts, each served by its own wastewater treatment plant. In addition to Miami Beach, the Central District plant treats wastewater from the City of Miami as well as other communities and unincorporated areas within the Central District. The wastewater transmission system has the capability to transfer limited quantities of wastewater flows between districts.

FIVE-YEAR CAPITAL IMPROVEMENT PROGRAM

The City is preparing a Five-Year Capital Improvement Program containing those projects needed in order to replace and upgrade components of the Water and Sewer Utility and to provide for the demands to be placed upon the Water and Sewer Utility by projected growth. In connection with the water system portion of the Five-Year Capital Improvement Program, all four of the Water and Sewer Utility's existing storage tanks will be replaced, all five of the existing water booster pump stations will be renovated and upgraded and most of the water mains throughout the System will be either cleaned and lined or replaced and/or extended.

The wastewater components of the Five-Year Capital Improvement Program emphasize: (1) Improvements to the wastewater pump stations, and (2) improvements to the gravity collection system to reduce the amount of infiltration and inflow into the wastewater system.

The cost of the projects included within the Five-Year Capital Improvement Program is estimated at $105,208,000. The City expects to fund these improvements on a cash flow basis primarily from the proceeds of Series 1995 bonds and parity Bonds which are anticipated to be issued this year. This method of funding will provide most of the needed capital, but Federal assistance is still necessary to complete these much needed improvements. Therefore, the City of Miami Beach requests a 90 percent to 10 percent local/Federal split in order to ensure that the City meets its goal.

## PREPARED STATEMENT OF RAYMOND J. CAMPION, PH.D., PRESIDENT, MICKEY LELAND NATIONAL URBAN AIR TOXICS RESEARCH CENTER

### SUMMARY

*Legislative Authorization*.—Clean Air Act Amendments of 1990 (Title III, Sec. 301).

*Mission*.—Study the health effects of the 189 air toxics designated in the Clean Air Act, via sound, peer-reviewed health and environmental research designed to address regulatory needs. Current emphasis is on the assessment of actual human exposures to air toxics.

*Current Funding*.—$1.15 million via EPA fiscal year 1997 Assistance Grant (not yet received from EPA).

*Current Request*.—$2.0 million via EPA in fiscal year 1998 (additional private sector funding anticipated).

*Research Projects*.—1. Human exposures to gaseous air toxics in the outdoor, indoor and personal environments in a major NUATRC field study.

2. Participation in CDC's National Health and Nutrition Examination Survey (NHANES) via personal exposure assessments on NHANES subjects.

3. Feasibility studies on human exposure research involving air toxic metals

4. Initiation of acute human health effects research, with the emphasis on effects on the human respiratory and immune systems.

### STATEMENT

Mr. Chairman, and Members of the Subcommittee, thank you for the opportunity to provide this written testimony on behalf of The Mickey Leland National Urban Air Toxics Research Center (NUATRC). My name is Dr. Raymond J. Campion, and I am the President of the Leland Center.

The Leland Center was established under Title III, Section 301 of the Clean Air Act Amendments of 1990 as a non-profit, public/private research entity, with the expectation that the Center would help develop new multidisciplinary scientific approaches to assessing the potential public health risks from exposure to air toxics, and to provide sound scientific data useful in prioritizing these risks. In brief, the Law mandates installation of Maximum Achievable Control Technology (MACT) on major industrial sources of the 189 compounds listed in the Act as air toxics or hazardous air pollutants. EPA must then determine, over a 8–9 year time frame, the residual health risks still present to the American public from these materials.

The NUATRC has been operational for about four years, having received an initial EPA assistance award in February, 1993. Private sector funding has also been obtained, primarily from national industrial firms, over a similar period. The Leland Center has used these monies to develop a small staff, utilizing an administrative service agreement with The University of Texas-Houston Health Science Center. This arrangement allows the Center to take advantage of the scientific synergies created by this relationship with The University of Texas and the Texas Medical Center, as directed in the authorization language. The Leland Center began its research program in 1993 with a contractual assessment of the possible impact of air toxics in urban atmospheres on asthma. The Center sponsored a nationally-attended workshop on the potential effects of air toxics on asthma in early 1994. The results of this work have been published in the scientific literature and have received a positive reception in the health research community, including EPA scientists.

In this testimony, we will address the strategic research directions being pursued by the Center, in order to meet our Congressional charge in a cost-effective and scientifically-sound manner. We have defined several "niche" research areas in which the Center is involved. As a small and relatively new entity, we believe it is important to concentrate our limited resources in research areas that provide the greatest potential payout in terms of environmental and public health advances. These "niche" areas of concentration are: human exposure assessment in the indoor and outdoor environment; and characterization of acute health effects from air toxics exposures, primarily associated with the respiratory and immune systems.

### STRATEGIC RESEARCH DIRECTIONS

The National Urban Air Toxics Research Center has made continuous progress over the past three years in addressing the Congressional charge to carry out a well-designed and focused research program on air toxics health effects. The NUATRC has profited significantly from the advice and counsel of our Board of Directors, appointed by Congress and the President, and from the research direction of the NUATRC Scientific Advisory Panel. The Panel, drawn from nationally-prominent academic and private sector scientists, has defined a prioritized research course that

recognizes the major needs in air toxics research as well as the limited ability of organizations like NUATRC to address all of those needs. A major component of our activity is to reach out and involve other national scientific resources in leveraged efforts to most efficiently and collegially carry out these investigations. Through national workshops and symposia, with publication in the peer-reviewed literature of the findings of these sessions, we have interacted with the Centers for Disease Control via their National Center for Health Statistics, the National Institute for Environmental Health Science, the Health Effects Institute and the Environmental Protection Agency to assure that our research directions are complementary to these larger organizations.

The NUATRC has developed a Strategic Research Plan which outlines current research plans through the year 2001. This Plan undergoes biannual review by the NUATRC's Scientific Advisory Panel as well as review by the EPA's Office of Research and Development. This latter step is important in forging better scientific ties with EPA so that NUATRC research is complementary to that of EPA in the air toxics area and also to provide a better understanding of NUATRC's directions to EPA before implementation.

HUMAN EXPOSURE ASSESSMENT

We can report to you a significant research result from our two-year feasibility study on personal exposure assessment technology development. Research scientists at The University of Texas have just completed this study, which we funded in 1995–96, which has demonstrated two important findings:

(1) that simple inexpensive 'passive' dosimeters can be used in urban population field studies to assess actual human exposures to specific air toxics such as benzene and toluene.

(2) that the relative importance of indoor, outdoor and personal exposures can be assessed under a variety of behavioral conditions, to allow the data obtained to be well characterized in terms of experimental variables such as temperature, humidity and concentration.

A major NUATRC research study will be initiated this summer to assess the levels of personal, indoor and outdoor exposures to a selected list of gaseous air toxics in major urban areas. Currently, nine proposals to do this work are being reviewed by the scientific community and the NUATRC plans to select a laboratory to conduct this study in early June. This work is expected to take three years to complete, and will cost approximately $500,000 per year. It also represents the most promising approach to apportioning the contributions of various air toxics sources to actual human exposure and as such will be critically important to risk assessment and risk management decisions.

Related but independent of this effort will be a NUATRC initiative to participate in the CDC's National Health and Nutrition Examination Survey (NHANES). The Center has been negotiating with CDC/National Center for Health Statistics to measure the personal exposures of a subset of NHANES participants to provide the first indications of the influence of environmental factors on this national health survey. We would be using similar technology to that used in the above referenced NUATRC study, but the value of the data would be enhanced by the statistical power of the NHANES study. In essence, the NUATRC would support this additional work in the NHANES program, and would have rapid access to the exposure data for use in risk assessments. NUATRC is committing $150,000 annually to this effort. We have also been made aware of the interest of the NIEHS in this cooperative work with CDC, which hopefully will lead to enhanced interactions with this agency.

The Strategic Research Plan also calls for NUATRC to begin investigations of the feasibility of applying the passive dosimeter technology cited above to the studies of air toxic metals. This is similar to our approach of first assessing the feasibility of gaseous toxics personal exposures that has led to the above studies.

AIR TOXICS HEALTH EFFECTS

As indicated earlier, the second priority research area for the NUATRC is that related to the health effects associated with air toxics, but particularly those effects of an acute nature dealing with the human respiratory and/or immune systems. The Scientific Advisory Panel elected to focus the NUATRC attention in that area, as considerable work is already underway on cancer effects and the nation seems to be experiencing increasing incidences of respiratory problems such as asthma among inner city children. This research topic will require careful development as these effects are very difficult to establish with certainty, but we believe the science is progressing to the point that better exposure information will provide direction to the

types of health research needed and the most promising approaches to completing that research.

SMALL GRANTS PROGRAM

Based on the need to involve the community in air toxics health risk issues, the NUATRC plans to start a small research grants program, wherein young and minority investigators could compete for limited funding that could allow more focused research approaches. This program should result in a greater degree of involvement by the local community and thus a greater sense of empowerment in these studies. We could also anticipate the development of better scientific resources in smaller, community-oriented institutions. These studies would be subject to the same rigorous peer-review and quality control requirements as the broader-scope national programs receive. For example, local hospital registries could be coupled with ambient environmental data to determine whether relationships between environmental and health data exist. This area of small grants or pilot studies offers us the opportunity to tap a reservoir of scientific talent that may be underutilized and which may also provide an improved sense of participation on the part of local community leaders.

APPROPRIATIONS REQUEST

The Mickey Leland National Urban Air Toxics Research Center respectfully requests a fiscal year 1998 Appropriation of $2.0 million. The studies described above, some of which are continuing efforts from the fiscal year 1997 research program, can be estimated as follows:

| | |
|---|---|
| Human personal exposure | $500,000 |
| Participation in NHANES | 180,000 |
| Toxic metals exposure studies | 300,000 |
| Metals methodology development | 300,000 |
| Small grants program | 250,000 |
| Risk assessment symposium | 50,000 |
| Administrative | 420,000 |
| Total | 2,000,000 |

NUATRC MANAGEMENT

As mentioned at the outset, the NUATRC is led by a nine-member Board of Directors, composed of leading academics, regulatory and private sector executives, all of whom are fully conversant with the air toxics environmental health research issues. The Board has been active in overseeing and directing the activities of the Scientific Advisory Panel (SAP), which is evolving into a cohesive, effective and independent research advisory group. The SAP numbers scientists and physicians from Harvard, the Universities of Minnesota, Pittsburgh and Washington, Brigham Young University, the Baylor College of Medicine, the U.S. Environmental Protection Agency, and private companies, including DuPont, Exxon, ICF Kaiser and Union Carbide. These thirteen scientists bring different areas of scientific expertise to the table, allowing a broad range of input to our research program. A number of these scientists are currently participating in the national debate on the ozone and fine particulate air quality standards, but it must be understood that the NUATRC does not have a position on the need for or the level of these proposed new standards, only that well-designed research is necessary to address these questions and related questions about air toxics.

FUNDING

NUATRC has relied on Congressional appropriations and support from the private sector. NUATRC continues to expand its support base with the addition of private sector partners. Thirteen major U.S. firms are current contributors to the NUATRC research program. They include Ashland Chemical, DuPont, Exxon, FMC Corporation, Goodyear Tire and Rubber Company, Houston Industries, Mobil Oil, Rohm and Haas Company, Shell, Sun Company, Texaco, Texas Eastman and Union Carbide. Corporate contributions have risen in each of the last three years, and represent approximately 30 percent the Congressional authorization for fiscal year 1996. An intensive development effort is planned in 1997 to further increase this portion in light of increased federal support.

CONCLUSION

We are most appreciative of the support we have received from the U.S. Congress. We believe that NUATRC is progressing in the manner anticipated by Congress,

and is poised to make a significant contribution to the science underlying air toxics health effects.

We continue to experience considerable delays in accessing Congressionally-appropriated monies through the Office of Research and Development of the Environmental Protection Agency. While fiscal year 1996 was indeed an unusual federal budget year, we believe that receiving the authority to access these monies some fourteen months after application (November, 1995 to January, 1997) represents an undue delay. We continue to stress our need for prompt action with EPA, since our research program cannot be continued with certainty until access to the Congressional appropriation is assured. This has slowed our research efforts considerably in 1996. In addition, EPA established a starting date for the fiscal year 1996 award of September, 1996, one month prior to the end of that fiscal year. This is causing the NUATRC considerable difficulty in paying expenses incurred during 1996 in anticipation of EPA release of these appropriated funds. We are continuing to negotiate with EPA to move this starting date to an earlier time in that fiscal year.

We are hopeful that our recent interactive efforts with EPA/ORD officials, and the addition of EPA scientists to our Scientific Advisory Panel will facilitate more timely receipt of these appropriated funds. Thank you for your attention to this request.

---

## PREPARED STATEMENT OF THE STATE AND TERRITORIAL AIR POLLUTION PROGRAM ADMINISTRATORS AND THE ASSOCIATION OF LOCAL AIR POLLUTION CONTROL OFFICIALS

The State and Territorial Air Pollution Program Administrators (STAPPA) and the Association of Local Air Pollution Control Officials (ALAPCO) appreciate this opportunity to provide testimony regarding the fiscal year 1998 proposed budget for the U.S. Environmental Protection Agency, particularly regarding grants to state and local air pollution control agencies under Section 105 of the Clean Air Act. The President's request calls for an increase of $4 million for state and local air grants in fiscal year 1998, totaling approximately $157.2 million. While STAPPA and ALAPCO are pleased that the President's budget acknowledges the need for additional funds, we believe this increase is totally inadequate to support the many critical activities state and local air agencies must carry out to implement the federal Clean Air Act. Therefore, we recommend that these grants be increased by at least $20 million over the President's request, raising the total to $177.2 million. Although such an increase would not nearly address our resource shortfalls, it would at least restore the approximately $27 million in reductions that grants to state and local air agencies have suffered since fiscal year 1995.

STAPPA and ALAPCO are the national associations of state and local air pollution control agencies in the 54 states and territories and over 150 major metropolitan areas across the nation. Under the Clean Air Act, state and local air quality officials have the primary responsibility for ensuring healthful air quality for our citizens. These agencies must carry out a host of activities to implement federal, state and local clean air requirements. This includes programs to address smog, particulate matter, toxic air pollution, acid rain and other types of air pollutants, some of which cause significant adverse health effects, including cancer, severe respiratory ailments and premature death. Air agencies must address new initiatives that focus on emerging problems, as well as carry out the core elements of our programs, which serve as the backbone of our nation's clean air effort.

### THE AIR POLLUTION PROBLEM IS SEVERE

Air pollution poses the most widespread environmental risk to public health. In fact, studies have shown that the adverse health risks from air pollution far exceed those posed by other environmental media. Among the most critical air quality risks to the public are caused by, among others:

—*Particulate matter*.—This problem is responsible for tens of thousands of premature deaths annually (according to various scientific studies).

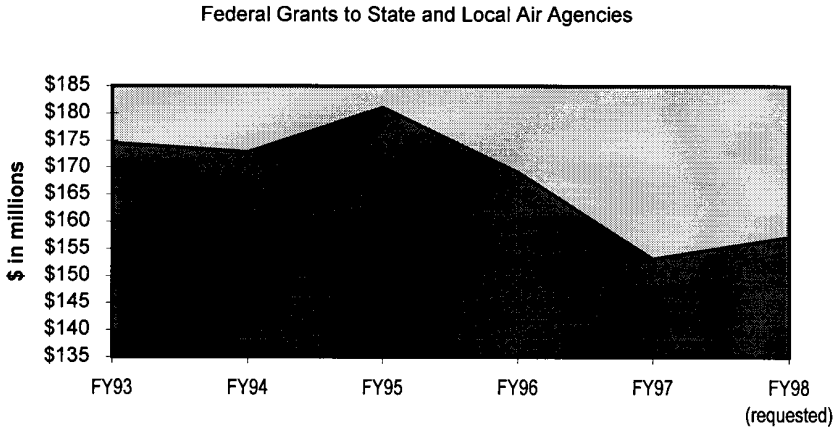
—*Hazardous air pollution*.—These emissions cause cancer, reproductive disorders, birth defects and damage to the nervous system.

—*Ozone*.—Smog (ground-level ozone) causes lung damage and impaired breathing for approximately 50 million people in urban areas and $1–2 billion in lost crop yield across the United States annually.

—*Regional haze*.—Air pollution causes significant visibility problems in national parks as well as urban areas throughout the country.

FEDERAL GRANTS HAVE DECREASED

Notwithstanding the severe health and environmental problems caused by air pollution, and the fact that Section 105 funds were never adequate to support all the demands of the Clean Air Act, federal grants that fund state and local air pollution control programs have been cut significantly over the past few years. Since fiscal year 1995, while our workload has increased substantially, funds under Section 105 of the Clean Air Act have decreased by approximately $27 million. Below is a graph illustrating the funding cuts that state and local agencies have experienced over the past few years.




STATE AND LOCAL AGENCIES HAVE TRIMMED FAT AND MAXIMIZED EFFICIENCIES

During this period, state and local air agencies have done what they could to accommodate some of these cuts. Specifically, we have maximized any opportunities to work more efficiently, trimmed any fat from our budgets, disinvested programs that were not essential and raised revenue on the state and local level. For example, in areas where air quality has improved, state and local agencies have reduced the number of monitors (e.g., lead monitors); when it saves resources, some agencies have employed contractors for activities related to permitting and monitoring; and agencies have increased the efficiency of the permit process by issuing categorical permits, allowing registration of sources, rather than requiring permits and relying on electronic permit application and issuance to reduce the amount of paperwork.

Notwithstanding our efforts, grant reductions have caused existing air programs to suffer, hurting essential programs and activities. Among the effects at the state and local levels have been reduced staff, decreased enforcement, curtailed monitoring, decreased emission inventory work, reduced rule development and decreased public education.

PERMIT FEES ARE NOT THE ANSWER

State and local air quality agencies receive funding for their programs from a variety of sources, including federal grants, state and local appropriations, state and local permit and emissions fees and the federal permit fee program under Title V of the Clean Air Act, which requires the collection of fees from major sources to cover the costs of the permit program. While the permit fees collected pursuant to Title V are essential to our efforts, they do not solve our funding problems for several reasons.

First, Title V fees may only support the operating permit program and cannot be used for other activities. Second, the fee program only applies to major sources, while most permits are issued for non-major sources, which do not pay Title V fees. The issuance of minor source permits is quite resource intensive. Finally, increases in costs for air quality programs (except for permit programs themselves) are not addressed by permit fee programs.

In other words, federal grants and permit fees support separate activities and can not be mingled. Even if fees are adequate for major source permit programs, which they may not be in many cases, the funds are not available for the other elements of air quality programs.

THE WORKLOAD IS INCREASING

New efforts to address air pollution are being added to our programs each year. In fact, EPA has proposed revisions to the National Ambient Air Quality Standards (NAAQS) for particulate matter and ozone, which are critical efforts that will necessitate additional resources. The agency estimates the benefits and costs of the revised particulate matter standard to be in the billions of dollars, with industry expected to spend tens of millions of dollars to comply with these standards. Yet, the proposed increase in grants for state and local air quality agencies for all aspects of their programs, not just particulate matter, is only $4 million. How will state and local air agencies, who must implement the air pollution program, succeed with an increase in grants of only $4 million?

Just as an example, one activity related to the new standards will be additional monitoring for fine particulate matter ($PM_{fine}$), which state and local agencies will need to begin very soon. EPA has proposed to set aside only $10.9 million for this activity in fiscal year 1998. However, far more than that will be necessary: estimates of needs reach $40 million in fiscal year 1998 for $PM_{fine}$ monitoring, including start-up and operating costs. Texas has estimated that it will require $1.34 million in fiscal year 1998 for $PM_{fine}$ monitoring alone (including capital, staff and operating expenses). Yet EPA has only proposed to allocate $1.2 million to the entire region (including five states and several local agencies) for $PM_{fine}$ monitoring equipment. The state of Washington estimates $PM_{fine}$ monitoring needs of $1.2 million in fiscal year 1998. Again, EPA proposed to allocate only $1.2 million to the region (including three states and several local agencies) for $PM_{fine}$ monitoring equipment.

To further compound the problem, while EPA has proposed to set aside $10.9 million for $PM_{fine}$ monitoring, the President's proposed increase for air grants is only $4 million. Therefore, EPA plans to obtain the balance by reprogramming grants from other programs that are still requirements and that are already struggling financially. For example, monitors for ozone and larger particulates ($PM_{10}$) will still be needed, even under EPA's proposed NAAQS revisions, yet funds for these programs may be redirected to pay for new $PM_{fine}$ monitors. In addition, areas are required not only to attain the NAAQS but to maintain them as well. EPA's strategy for reprogramming, therefore, will provide insufficient funding not only for $PM_{fine}$ monitoring, but for other, critical programs, including ozone, $PM_{10}$ and air toxics.

WHAT A RESTORATION IN GRANT FUNDS COULD ACCOMPLISH

With an increase of $20 million over the President's fiscal year 1998 request, the cuts of recent years to state and local air grants would be partially restored. With these additional resources, state and local air agencies could focus more on critical activities, such as monitoring pollutants to satisfy existing and upcoming standards, data gathering and analysis, enforcement and rule development. Specifically, state and local agencies could accomplish the following:

*Collecting Good Information*

It is essential that state and local air agencies collect good data through monitoring. This information is critical for developing emission reduction strategies and assessing progress (e.g., under the Government Performance and Results Act). As we noted above, significantly more resources are necessary for monitoring fine particulate matter—approximately $40 million will be needed nationally in fiscal year 1998, while EPA has allocated only $10.9 million. Approximately $10 million above EPA's request is needed for monitoring ozone and hazardous air pollutants. Finally, the current program for visibility and regional haze focuses on areas around national parks (for visibility). However, regional haze concerns call for more widespread monitoring, which would involve state and local agencies.

*Small Businesses and Minor Sources*

State and local air pollution control programs affect many small businesses and minor sources in order to obtain needed emission reductions. These types of sources are quite numerous and have special needs that should be addressed. The EPA budget proposal does not include additional funding specifically to address minor sources. However, permitting and inspecting smaller sources and addressing their special needs is a tremendous resource burden on state and local air agencies. Typically, these sources do not pay Title V fees.

Additional resources are needed for all aspects of compliance assistance and enforcement, but this is especially true as it relates to small businesses. These sources need outreach and education programs, as well as compliance assistance, specially tailored for smaller businesses.

State and local air agencies must implement all of the federal standards EPA develops to limit emissions of hazardous air pollutants—there should be standards for 174 source categories by 2000. These categories include numerous smaller sources, such as dry cleaners and chromium electroplaters, that may not be part of the Title V program (thus not paying Title V fees to support the program).

*Other*

Mobile sources contribute significantly to emissions of particulate matter, smog precursors, carbon monoxide and toxic air pollutants. Additional funding is needed for state and local agencies to address these problems. (Mobile sources are not subject to Title V fees.) Efforts requiring additional funding include (1) program evaluation and data gathering, including the evaluation of the effectiveness of inspection and maintenance programs, (2) transportation-related programs, and (3) enforcement of oxygenated fuels programs, low-Reid Vapor Pressure requirements and Stage 2 Vapor recovery. In addition, as with small businesses, considerable outreach and education will be essential to gain public support for and compliance with necessary transportation control measures.

It can be very efficient and cost-effective to address pollution on a multi-media basis. Grants of approximately $10 million could be used for state and local agencies to carry out multi-media initiatives and encourage them within industry.

## CONCLUSION

STAPPA and ALAPCO urge that Congress increase federal grants for state and local air pollution control agencies under EPA's budget by at least $20 million over the President's request, bringing the total to $177.2 million. While this increase will not adequately address our resource shortfall, it will at least restore the substantial funding cuts state and local agencies have incurred over the past few years. In addition, STAPPA and ALAPCO are currently working to assess state and local funding needs for fiscal year 1999 and beyond. Preliminary estimates reveal that state and local agencies also will need substantial increases beyond fiscal year 1998.

We thank you for this opportunity to provide our recommendations on the fiscal year 1998 budget for air grants to state and local agencies. We will be happy to answer any questions you have.

---

## PREPARED STATEMENT OF JULIUS CIACCIA, JR., PRESIDENT, ASSOCIATION OF METROPOLITAN WATER AGENCIES

## INTRODUCTION

The Association of Metropolitan Water Agencies (AMWA) is a non-profit organization composed of the nation's largest, publicly-owned and municipal drinking water suppliers. Member agencies are represented by their directors and managers and supply clean, safe drinking water to nearly 100 million Americans.

AMWA member agencies are regulated by the Environmental Protection Agency (EPA) under the Safe Drinking Water Act (SDWA) and other statutes. As an association devoted to the protection of public health through the provision of safe, high quality drinking water, AMWA strongly supports adequate levels of funding for EPA's drinking water and ground water programs.

The association sincerely appreciates this opportunity to testify before the subcommittee.

## REQUEST OVERVIEW

Like the federal government, state and local governments are witnessing an era of limited resources. Simultaneously, regulatory requirements on local governments continue to expand. The federal government can help to make State and local dollars go farther by targeting federal expenditures to areas where modest investments can deliver significant benefits to the public. This request outlines six such investments. AMWA's specific recommendations are:

—Health effects research: meet EPA's $35.9 million budget request.

—Continue support of drinking water research partnerships between EPA and the AWWA Research Foundation: $5 million (to be matched by the Research Foundation and water suppliers).

—Provide dedicated funding for arsenic health effects research: $1 million (to be matched by the Research Foundation and water suppliers).

—EPA's Drinking Water Program: meet EPA's $105.3 million request.

—State primacy grants (Public Water System Supervision Program Grants): fund the program at the authorized level of $100 million.

—Drinking Water State Revolving Fund: fund the SRF at the $1 billion authorization level.

BACKGROUND

Drinking water is universally recognized as a central element in the health and well-being of the American people. Furthermore safe, clean drinking water is a key component in the economic health of our communities. Through advanced research and technological capacity, Americans enjoy the safest drinking water in the world. To ensure the continued safety of the nation's drinking water supply, in 1974 Congress passed the Safe Drinking Water Act. The Act was amended in 1986 and once again last year. It placed the federal government squarely in an arena traditionally the province of State and local governments. When enacting the statute, Congress decided it was the federal government's responsibility to set national drinking water standards, to establish time frames for compliance and to oversee how States implement drinking water programs. With the 1996 amendments, the federal government assumed a new approach for determining what to regulate and for the first time is required to establish drinking water standards based on sound, peer-reviewed science.

HEALTH EFFECTS RESEARCH

*New Requirements and Good Science*

In 1996 Congress blazed a new trail in directing how federal agencies develop regulations by requiring a new focus on good science, which includes an increased reliance on health effects research. In section after section, the Safe Drinking Water Act Amendments of 1996 call on EPA to approach regulatory decision making differently. The statute requires the agency to utilize health effects data to identify contaminants for future regulation and for setting drinking water goals and standards. And for the first time, the law gives EPA the discretion to consider risk tradeoffs and to set standards based on such data.

*Microbial Contaminants, Disinfectants and Disinfection By-products*

Beyond the research needed to satisfy programmatic requirements, funds are needed to expand the scientific community's understanding of the health effects of microbial contaminants, disinfectants and disinfection by-products and the effects of contaminants on sensitive subpopulations, such as children, the elderly, pregnant women and the sick. Through disinfection, water suppliers are able to control microbial contamination in drinking water, but the process can produce chemical by-products that may be human carcinogens or may cause other toxic effects. The Centers for Disease Control, the National Academy of Sciences and EPA's Science Advisory Board have all noted extensive research is needed in these areas. AMWA would like to thank Members for the appropriation last fiscal year of $10 million specifically for health effects research. Without substantial investments on an annual basis, Congress, EPA, States and drinking water suppliers cannot assure American consumers that contaminants selected for regulation are the appropriate ones or that drinking water standards have been adequately established.

AMWA recommends that Congress meet EPA's fiscal year 1998 budget request of $35.9 million for drinking water research. In addition, AMWA has urged EPA to set aside $10 million per fiscal year from the Drinking Water State Revolving Fund specifically for health effects research, as authorized in the 1996 amendments to Safe Drinking Water Act. The set-aside would ensure a continuous stream of funding in an area where EPA's commitment has been inconsistent.

*EPA-AWWARF Research*

The American Water Works Association Research Foundation (AWWARF) is an organization dedicated to conducting much needed research to satisfy research needs expressed by EPA and the drinking water community. Like other drinking water associations, AMWA strongly supports the Foundation and its research efforts. Last fiscal year, Congress provided $2.5 million to AWWARF. The drinking water community matched that amount with $9.1 million and looks forward to maintaining the long-standing cooperative relationship we have had with EPA.

AMWA recommends providing $5 million for fiscal year 1998 for EPA-AWWARF research partnerships, with the nation's drinking water suppliers matching those dollars.

*Arsenic Research*

The regulation of arsenic in drinking water poses a unique dilemma. While the effects of arsenic at levels in excess of those typically found in the nation's water supplies are well studied, there is a serious scientific debate on the effects of arsenic

at the low levels commonly found. EPA has outlined a research agenda to explore and reduce these uncertainties, and AMWA strongly supports these efforts. In fiscal year 1997, Congress provided $1 million in arsenic research funding.

AMWA recommends providing $1 million for fiscal year 1998 specifically for arsenic research under the aegis of Arsenic Research Partnership which includes AWWARF, the Association of California Water Agencies and the EPA. As in the past, the funding would be matched by individual drinking water suppliers.

EPA'S DRINKING WATER PROGRAM

EPA's drinking water program faces the daunting task of implementing the 1996 Amendments to the Safe Drinking Water Act. This includes instituting a new regulatory regime and developing programs to oversee consumer confidence report requirements, monitoring relief, source water delineations, assessments and protection, operator certification requirements, microbial and disinfection by-product standards, new treatment technologies and the first ever drinking water state revolving fund. In addition, EPA must construct a contaminant occurrence data base and develop a method to select contaminants for regulation. In satisfying these requirements EPA has utilized an approach that stands as a model for future federal activities. Never before has an agency involved the public in the regulatory process to the extent EPA's Office of Water has. Under the aegis of the National Drinking Water Advisory Council or NDWAC, EPA has invited private citizens, scientists, drinking water professionals, environmental, public health and consumer advocacy representatives, medical professionals, economists and many others to make official and expert recommendations on how the agency should carry out its regulatory responsibilities. AMWA commends the agency, and specifically those in the Office of Drinking Water and Ground Water, for taking this new approach. The association would especially like to point out to members of the subcommittee the effort the agency has made to take advice from water suppliers on protecting sources of drinking water. In addition, EPA's work to educate and motivate stakeholders on the need to protect our nation's sources of drinking water is notable. Altogether, EPA will have held 26 meetings and workshops across the country, with each one attracting remarkable interest. The association is confident that each of the regulations eventually developed by EPA will reflect this new stakeholder-driven approach and hopefully will have a positive impact on the way other agencies go about their work serving the public.

AMWA recommends that Congress meet EPA's fiscal year 1998 budget request of $105.3 million to implement the Safe Drinking Water Act and other responsibilities in the drinking water program.

STATE PRIMACY GRANTS

To comply with the Safe Drinking Water Act, Congress intended that EPA develop drinking water regulations and that the States administer the program to ensure compliance with and enforcement of its provisions. Administration, compliance, and enforcement activities are collectively known as "primacy" requirements, and federal grants to the States are known as Public Water Supply Supervision Grants. The massive demands on States arising from the Act have become increasingly apparent given the dramatic increase in the number of regulated contaminants over the last several years. Moreover, effective implementation of the 1996 amendments is contingent upon an appropriately funded primacy program. States are charged with delineating and assessing their rivers and streams to better protect sources of drinking water and States must also oversee the new consumer confidence regulations, under which nearly every public water system in the United States must mail to each customer annually a report detailing the quality of drinking water served to them. These and other new programs run by the States are integral to the effective delivery of safe, clean drinking water. As federal requirements increase, State resource shortfalls become more acute, and States are too often threatened with the loss of primacy. Should this occur, public health protections could suffer a major setback.

AMWA recommends Congress fund the Public Water System Supervision Program Grants at the authorized level of $100 million.

DRINKING WATER STATE REVOLVING FUND

Earlier this year, EPA presented to Congress a report of drinking water systems' infrastructure needs and identified $138.4 billion in needs over a twenty-year period. Nearly $76.8 billion was identified as needed in the short term. The share for large systems like those who comprise AMWA's membership is $58.5 billion, and

$10.2 billion is needed immediately to protect water from microbial contaminants that could cause death or illness.

It can be easy to forget that these large dollar amounts are composed of thousands of individual projects, many of which are needed so that systems will meet or continue to meet the requirements of the Safe Drinking Water Act. Upgrading a treatment plant or replacing old pipes or installing better technologies can run from a few hundred thousand to a few billion dollars. Most project costs fall somewhere in the middle, yet the new Drinking Water State Revolving Fund (DWSRF) is capitalized to a limited extent. From funds provided by Congress through fiscal year 1997, most State capitalization grants—the funds from which loans will be made to systems—fall into the $12.5 million to $25 million range, which is enough for perhaps one modest project in each State. Under EPA's fiscal year 1998 request, most capitalization grants will range from $2 million to $12 million.

AMWA is hopeful that Congress will recognize this overwhelming need and respond by funding the new DWSRF at the authorized level of $1 billion.

### CONCLUSION

Congress, EPA, the States and drinking water suppliers have before them a monumental job: to ensure the American public continues to receive high quality drinking water. To meet that objective requires an investment previously not seen in this arena. Infrastructure is aging, water systems require new and better technologies to meet the challenges presented by contaminants found in our rivers and streams and to meet future regulatory objectives, and regulators must expect to base future requirements and contaminant data bases on highly accurate research data. AMWA's member agencies look to Congress to help us meet these challenges.

---

## PREPARED STATEMENT OF THE AMERICAN PUBLIC POWER ASSOCIATION

The American Public Power Association (APPA) is the service organization representing the interests of the more than 2,000 municipal and other state and locally owned utilities throughout the United States. Collectively, public power utilities deliver electric energy to one of every seven U.S. electric consumers (about 35 million people) serving some of the nation's largest cities. The majority of APPA's member systems are located in small and medium-sized communities in every state except Hawaii. We appreciate the opportunity to submit this statement concerning fiscal year 1998 appropriations for programs under this Subcommittee's jurisdiction.

### CLIMATE CHANGE ACTION PLAN VOLUNTARY PARTNERSHIP PROGRAMS

APPA supports the Administration's fiscal year 1998 budget request of $149 million for Climate Change Action Plan programs operated by the Environmental Protection Agency (EPA). These partnerships emphasize cost-effective measures to reduce, avoid or sequester greenhouse gas emissions in order to return them to 1990 levels. Through voluntary agreements, public power and other electric utilities have committed to reducing emissions by over 43 million metric tons of carbon equivalent in the year 2000. In addition to demonstrating that important environmental objectives can be achieved through voluntary efforts, these EPA programs contribute to a stronger U.S. position in international climate change negotiations. Of particular interest to APPA member systems are the Green Lights, Energy Star and Landfill Methane Outreach programs operated by EPA.

*Green Lights Program*

The Green Lights program encourages use of energy efficient lighting to reduce energy costs, increase productivity, promote customer retention and protect the environment. Program partners agree to survey lighting in their facilities and to upgrade it, if cost-effective. Environmental benefits result from more efficient energy use and from reductions in emissions of carbon dioxide, sulfur dioxide and nitrogen dioxide, thus improving air quality. EPA provides program participants public recognition and technical support.

Both large and small APPA member systems participate in this program including City Utilities of Springfield, MO; Concord Municipal Light Plant, MA; City of Georgetown, TX; Grant County Public Utility District, WA; Gray's Harbor County PUD, WA; Greenville Utilities Commission, NC; Indiana Municipal Power Authority, IN; Los Angeles Department of Water & Power, CA; Mason County PUD, WA; New York Power Authority, NY; Norwood Municipal Light Department, MA; Omaha Public Power District, NE; Orlando Utilities Commission, FL; Port Angeles City Light Department, WA; Puerto Rico Electric Power Authority, PR; Sacramento Municipal Utility District, CA; City of St. Charles Electric Utility, IL; Salt River

Project, AZ; Virgin Islands Water & Power Authority, VI; Springfield Utility Board, OR, and Taunton Municipal Lighting Plant, MA.

*Energy Star Programs*

EPA's several Energy Star programs build on the successes of Green Lights. These important EPA programs are examples of successful public/nonpublic partnerships that promote the use of profitable, energy-efficient technologies as a way to increase profits and competitiveness while at the same time minimizing pollution. They include Energy Star Buildings, the Energy Star Transformer Program, Energy Star office equipment and the Residential Energy Star Program. APPA member systems participate in and support EPA's Energy Star efforts.

*Landfill Methane Outreach Program*

The Landfill Methane Outreach Program provides environmental benefits by encouraging utilities to make use of landfill gas as an energy source. Several APPA member systems participate in this program, including Illinois Municipal Electric Agency, IL; Jacksonville Electric Authority, FL; Emerald People's Utility District, OR; Los Angeles Department of Water and Power, CA, and Orlando Utilities Commission, FL. Utilities voluntarily agree to take advantage of the best opportunities to use landfill gas in generating power. EPA recognizes and publicizes the utility's efforts and provides technical assistance. One of the success stories cited by EPA occurred with APPA member system Emerald People's Utility District in Eugene, OR. This public power utility worked collaboratively with the State of Oregon, Lane County officials and a private investment company to develop a 3.4 MW plant at the Short Mountain Landfill. EPUD's general manager says landfill energy recovery is like "turning straw into gold," providing additional revenue to EPUD as well as a fee to the county.

COUNCIL ON ENVIRONMENTAL QUALITY (CEQ)

APPA supports the Administration's fiscal year 1997 budget request of $3,020,000 for the Council on Environmental Quality (CEQ). As units of local government APPA member utilities have a unique perspective on environmental regulation. Public power utilities and others from industry have experienced a general lack of consistency in federal environmental regulation. While additional layers of government should be avoided, a central overseer can perform a valuable function in preventing duplicative, unnecessary and inconsistent regulations. The council is responsible for ensuring that federal agencies perform their tasks in an efficient and coordinated manner. For these reasons, APPA supports the existence and continued operation of CEQ.

SUPERFUND

APPA member systems also support the Administration's request of $2,094.2 million for Superfund cleanups. The Superfund Trust Fund as well as Superfund research programs are critical as we consider reauthorization of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), the law authorizing Superfund. The increased emphasis on expedited settlements and administrative relief, the Brownfields Initiative and more effective use of alternative dispute resolution by EPA are worthy goals.

Again, APPA member systems appreciate your consideration of our views on priority appropriations issues for fiscal year 1997.

---

PREPARED STATEMENT OF JARED O. BLUM, PRESIDENT, POLYISOCYANURATE INSULATION MANUFACTURERS ASSOCIATION, WASHINGTON, DC

Enclosed is the testimony PIMA submitted to the House and Senate Appropriation Committees concerning fiscal year 1998 funding for EPA's Energy Star Homes and Energy Star Insulation programs. We support EPA's efforts and strongly urge you to support the level of funding requested by EPA for these programs and for the administration's Climate Change Action Plan (CCAP). The following are some of the important points we wanted to highlight about these programs.

—Energy use in homes accounts for 20 percent of U.S. $CO_2$ emissions, a major greenhouse gas.

—Energy Star Homes are new homes that use at least 30 percent less energy than required by the national Model Energy Code.

—As a result of the Energy Star Homes program, annual $CO_2$ emissions will be reduced 10 Million Metric Tonnes by 2010 (which is equivalent to removing about 4 million cars from U.S. roads) and $100 billion will be saved through

lower energy costs during the first thirty years following construction of Energy Star homes.

—The construction of Energy Star Homes will have a significant positive impact on U.S. employment and businesses (i.e., additional sales of U.S. services and products instead of imported oil).

—The Energy Star Insulation program provides consumers with unbiased and accurate information on how to select the proper insulation for each climatic region of the country and for different applications, saving consumers energy and money.

—Because of market barriers to energy efficient products and building practices, the environmental and economic benefits of Energy Star programs would not occur without EPA's help.

Thank you for your attention to this issue. If we can be of any further assistance, do not hesitate to contact me.

The Polyisocyanurate Insulation Manufacturers Association (PIMA) is pleased to submit these written comments on EPA's fiscal year 1998 appropriations for the Energy Star Programs, an element of the Climate Change Action Plan (CCAP). PIMA is the trade association of the rigid polyiso foam insulation industry, a product that is used in over 60 percent of new commercial roof construction, in 40 percent of new residential construction, and in most re-insulation of existing commercial building roofs.

## INTRODUCTION

We are frequently reminded of the burden and cost to American industry caused by environmental regulations that rely on command-and-control approaches. In contrast, EPA's Energy Star programs, which are completely voluntary, have a significant positive impact on the U.S. economy and business. In addition to the economic and employment benefits, the Energy Star programs promise to achieve significant reductions in greenhouse gas emissions as well as other pollutants. This testimony focuses on the Energy Star Homes program and the Energy Star Insulation program, but much of what I say here can be applied equally to the other Energy Star programs. PIMA is a charter partner in the Energy Star Insulation program and we are one of 79 ally members of the Energy Star Homes program.

Energy Star programs are well-run, relatively inexpensive operations that have been established to address critical environmental problems. Energy Star programs encourage the production and marketing of energy-efficient products and increase consumer awareness of these products and their benefits. EPA is a catalyst and a facilitator helping to create a market transformation that favors energy-efficient products. We believe that EPA should be applauded for its creative and economically sound thinking in finding solutions to environmental problems.

## ENERGY STAR HOMES

As part of the country's efforts to reduce the emissions of global warming gases, EPA launched the Energy Star Homes program in 1995. Household energy use is a major source of U.S. carbon dioxide ($CO_2$) emissions, accounting for about 20 percent of total emissions. The Energy Star Homes program reduces energy use and prevents pollution by encouraging builders and developers to construct energy-efficient homes. Energy improvements result from the use of improved insulation, tighter ducts, high efficiency heating and air conditioning, and high performance windows.

Builders who participate in the program as partners are provided with technical support, fact sheets on technologies, sales training, information on mortgage products, and use of the Energy Star logo and promotional materials. In addition, EPA and its partners and allies will be placing public service announcements and editorials to raise public awareness of the program and recognition of the logo. Builders participate not only because of these services, but because EPA is working to create a market for energy-efficient home construction, so builders willing to undertake some additional effort and risk are able to distinguish their product from the less energy-efficient homes built by their competitors.

Builder participation, in turn, provides increased demand for energy-efficient products, such as the rigid foam insulation produced by PIMA members. EPA estimates that the construction of Energy Star homes over the next 12.5 years will increase sales for insulation by $2 billion. Also, an additional $6 billion of insulation is likely to be sold because the Energy Star program is expected to raise the "industry standard" for insulation upgrades in existing homes. Organizations that manufacture energy-efficient products or provide related services participate in the Energy Star Homes program as allies, promoting the program and recruiting home

builders as participants and offering builders various services that correspond with their own business plans.

Energy Star Homes are new homes that use at least 30 percent less energy than required by the national Model Energy Code while maintaining or improving indoor air quality. Although the value of these homes is greater than those that are less energy efficient (i.e., a higher sticker price), Energy Star homes actually cost less to own and operate on a monthly basis than a comparable home that is not as energy efficient. This is because the savings from lower monthly energy bills more than cancels out the small increase to a person's monthly mortgage payment due to the extra energy features. In addition, banks are now providing favorable mortgages for energy-efficient homes, lowering monthly payments even more.

The goal of the Energy Star Homes program is to increase the market share for Energy Star homes to 10 percent of new home construction by 2000 and more than 95 percent by 2010. This will have both economic and environmental benefits. The homes sold by the year 2000 will result in energy savings of $1.8 billion and homes sold by the year 2010 will result in energy savings of $100 billion.[1] This is $100 billion that will be spent, not on energy consumption, but on goods and services. It is important to emphasize that money spent on goods and services creates more U.S. jobs and results in fewer imports than money spent on energy consumption.

The environmental benefits start out small, but grow impressively over the next 12 years. In the year 2000, the construction of Energy Star Homes will have resulted in annual $CO_2$ emission reductions of 0.3 Million Metric Tonnes (MMT), which is equivalent to removing more than 55,000 cars from U.S. roads. By the year 2010, projected reductions in annual $CO_2$ emissions will be 10 MMT, which is equivalent to removing about four million cars. In addition to the reductions in $CO_2$ emissions, there will be similar reductions in other pollutants associated with the generation of electricity and the burning of fuel in home furnaces.

### ENERGY STAR INSULATION

The Energy Star Insulation program, initiated in 1996, is aimed at energy use in the existing housing stock and is intended to educate retail sales people and consumers about R-values and the proper use of home insulation. Insulation manufacturers that participate in the program will be allowed to use the Energy Star logo on their products, which will prompt consumers to ask for an "insulation guide" that will be made available at stores selling the insulation. As a condition for using the Energy Star logo, the insulation guide will be reproduced and distributed to retail outlets by the insulation manufacturers. As a result, the guide will be widely distributed at little cost to the government.

The insulation guide is an unbiased and accurate source of information that will inform the consumer, in an easy to understand format, about the significance of R-values and how to select the proper R-value for each climatic region of the country. The guide will also indicate which types of insulation are best suited for different applications.

### THE IMPORTANCE OF A WELL FUNDED ENERGY STAR PROGRAM

Some observers have asked: If the Energy Star programs are promoting cost-effective measures that will save people money, why does this market transformation not occur on its own? The answer for many of the programs can be found in the types of businesses that are involved. In the case of the Homes program, the participants are small businesses that do not have the resources to obtain enough information on new energy-efficient products and construction methods necessary to take the risk of changing their old ways of building and selling houses. Also, in the case of energy-efficient homes, there is an information deficit on the part of the consumer, as well, that will continue to exist if nothing is done. The Congressional Office of Technology Assessment, in its 1991 report, Changing by Degrees: Steps to Reduce Greenhouse Gases, said that "lack of information is a key obstacle to greater investment in energy conservation" on the part of both individual consumers and businesses. "It adversely affects [operation and maintenance] practices, investment decisions, and incentives to develop new energy-efficient technologies." The large number of highly cost-effective investments in energy efficiency that are not chosen by consumers indicated that price alone did not stimulate optimal investment decisions. Therefore, OTA recommended an increased federal role in information dissemination in order to overcome this barrier.

---

[1] These are savings that are locked-in over the life of a 30-year mortgage, a time frame that results in an overly conservative estimate. If you assume the savings will continue for the life of the home, about 90 to 100 years, the savings estimate triples to about $300 billion.

Selling a home that may have a higher sticker price, but which is cheaper to operate and own on a monthly basis because of its high energy efficiency, requires a different dynamic between the builder, developer, and home buyer than existed before. To create the market for energy-efficient homes there has to be an organized effort to educate consumers and to teach builders how to change their old ways of approaching consumers. Because of the critical importance of reducing green house gas emissions (including energy-related $CO_2$ emissions), it is clearly an appropriate role for the federal government to plant the seeds of a new, more sustainable, market. As the market is transformed, it will become less dependent on EPA's efforts and the Agency will be able to reduce its support for those products and to reallocate its resources to other programs.

CONCLUSION

PIMA urges this Committee and Congress to fund CCAP, of which the Energy Star Programs is part, at the administration's requested level.

---

PREPARED STATEMENT OF DR. PETER FOX, ARIZONA STATE UNIVERSITY AND MARGARET NELLOR, COUNTY SANITATION DISTRICTS OF LOS ANGELES COUNTY

Mr. Chairman and distinguished members of the Subcommittee, we have the honor of submitting testimony to the Subcommittee in support of federal funding in the amount of $2 million through the U.S. Environmental Protection Agency (EPA) in fiscal year 1998 for an exciting research program focussed on reducing uncertainties about the efficiency and sustainability of Soil Aquifer Treatment (SAT) for indirect potable reuse of highly treated domestic wastewater (known as recycled water). Although this study has national applicability, the research is centered in California and Arizona. These funds will be used to augment the over $5 million in cash and in-kind services already committed to the investigation by the various research sponsors and participants.

This research program is designed to provide the data necessary to support the rational design and operation of SAT systems, to predict a specific level of water quality improvement provided by SAT, and to answer important public health questions. The County Sanitation Districts of Los Angeles County, who serve over 5 million people in 78 cities in Los Angeles County, California, and Arizona State University are the project managers for the research. We are joined in support of this funding by our distinguished colleagues and fellow members of our interdisciplinary investigation team including the Cities of Phoenix, Glendale, Mesa, Scottsdale, Tempe, and Tucson Water, Arizona; the Orange County Water District; the Water Reclamation District of Southern California; the Los Angeles Department of Water and Power; the City of Riverside, California; the University of Arizona; the University of Colorado; Stanford University; and the U.S. Geological Survey.

As the arid West continues to develop and as sources for additional water supplies become more and more scarce, an increasingly important source of water for agricultural and urban use is recycled water. This water has the potential to alleviate water shortages and to provide important augmentation to existing sources. Soil Aquifer Treatment, which is currently in use in California and Arizona, is one technology that has the potential to economically supplement traditional treatment and storage systems for existing and future potable water supplies. This study will be of value not only in the West but in a number of other areas around the country where groundwater recharge is used to supplement potable water supplies, to control sea water intrusion in coastal groundwater aquifers, to control land subsidence caused by declining groundwater levels, to raise groundwater levels to reduce the cost of groundwater pumping, and to provide a means of treating wastewater prior to discharge. These areas include Florida, Massachusetts, Nebraska, Michigan, New Hampshire, New Jersey, New York, South Dakota, Texas, and Wisconsin.

Further, our investigations of SAT will help address public health issues that all water suppliers in the nation face, such as source water protection and disinfection practices. The questions that will be answered by our study will be instrumental to the identification, characterization, and treatment of compounds in our nation's water supply so that we may better protect the health of our citizens. Thus, the research clearly complements the goals of EPA's National Water Program Agenda.

THE NEED FOR THE STUDY

While groundwater recharge using recycled water has been used in the United States for several decades and has been the subject of a number of studies, study methodology and testing has limited the scientific and technical community's ability

to fully address a number of complex public health questions. Most recently, in May 1996, the National Research Council's Water Science and Technology Board initiated a study to evaluate the viability of augmenting potable supplies with recycled water. The purpose of the NRC study is to provide technical and policy guidance regarding the use of treated municipal wastewater as a potable water source. It is anticipated that the NRC's report, which will be available in July 1997, will be useful in assessing the feasibility and desirability of potable reuse projects as a means of supplementing water supplies, and in identifying fruitful lines of research. Many of those on our research team have been closely involved in the NRC study. The project presented in this testimony has been coordinated with the NRC study and is specifically designed to build on and investigate critical areas of research necessary to address the myriad of unknowns facing SAT and the indirect use of recycled water for potable water supply.

The results of our investigation will help us better understand the complex nature of recycled water and SAT so that we may take advantage of the benefits offered by indirect potable reuse based on groundwater recharge such as:

—additional water quality improvements;
—seasonal or longer-term storage without evaporative losses;
—protection of water sources against recontamination (with coliforms and parasites) by birds, mammals, and even humans; and
—prevention of algae growth and associated water-quality problems such as algae-derived taste and odor.

## SAT DEFINED

Soil Aquifer Treatment can best be described as a groundwater recharge method using recycled water. SAT relies on percolation of the recycled water through soil and groundwater transport to further improve water quality prior to reuse.

—Soil percolation encompasses several processes that occur as water seeps downward through the soil under the influence of gravity to enter the groundwater system. The soil acts as a filter to improve the characteristics of the recycled water due to physical chemical and microbiological processes.
—Groundwater transport.—After reaching the underlying aquifer, groundwater moves slowly to extraction wells. During this contact time with the unconsolidated aquifer material, which includes mixing with the indigenous groundwater, further water quality benefits are realized through a number of physical, chemical, and biological processes.

## STUDY GOALS

Specific goals of the study are to:

—characterize processes that contribute to organic chemical removal and transformation during transport through the soil percolation zone and underlying groundwater aquifer;
—investigate and model relationships among above-ground treatment, wetlands polishing and SAT;
—identify monitoring criteria that will provide proper assurances regarding the elimination of viruses and other pathogens; and
—produce a framework or model within which SAT systems can be designed and operated to meet regulatory criteria.

Field investigations and data gathering will be performed using recharge sites in California and Arizona. The research will focus on wetlands and infiltration/subsurface treatment as a single treatment system for purposes of aquifer protection—primarily protection from nitrate, dissolved organic chemicals, and pathogenic microorganisms. The effectiveness of Soil Aquifer Treatment will be investigated and systematically analyzed to determine the efficacy of the three protective barriers inherent in SAT systems including: The infiltration interface at the soil water boundary of the infiltration basin; Percolation through the soil column; and Storage/transport in the underlying aquifer.

The water quality benefits derived from treatment in each of the three zones will be evaluated based on each zone's ability to minimize organic carbon, nitrogen and pathogens.

Water quality data will be collected from at least seven full- or pilot-scale facilities that offer a range of effluent qualities and very different physical conditions in terms of depth to groundwater, soil and sediment type, etc. These facilities are located in Phoenix, Mesa and Tucson, Arizona; and Riverside, Los Angeles, Los Angeles County and Orange County, California. Some of the more unique research elements include the use of genetic techniques to isolate and identify viruses; analytical methodologies capable of identifying over 90 percent of the materials comprising

the organic content in water samples; methods to isolate and characterize the estrogenic components in groundwater and recycled water; and a public education/outreach component to disseminate the results of the study.

Mr. Chairman, in conclusion we would greatly appreciate your support for this necessary and worthwhile research project.

---

PREPARED STATEMENT OF THE ASSOCIATION OF NATIONAL ESTUARY PROGRAMS

Chairman Bond and Members of the Senate VA–HUD Appropriations Subcommittee: On behalf of the Association of National Estuary Programs (ANEP), we greatly appreciate the opportunity to submit to this Subcommittee our views on the fiscal year 1998 funding requirements for both the development and implementation of the National Estuary Program. The National Estuary Program is established by section 320 of the Clean Water Act, and administered by the U.S. Environmental Protection Agency in partnership with the State and local governments, interested citizens and the business community.

Estuaries are the biologically essential, economically priceless, but fragile connections between the continent and the oceans. The entire nation is served by coastal estuaries in numerous ways, such as commercial and recreational fishing, boating, wildlife habitat. Through the National Estuary Program, local governments and interested business and industry groups come together with the State and Federal governments to reach agreement on long-term management plans that seek to guarantee the economic and biological productivity of the estuaries into the future.

To date, there are 28 estuaries in the national program, 11 in the developmental stage and 17 in the implementation stage, of their individual "Comprehensive Conservation and Management Plans" (CCMP's). These management plans are each unique, but share many characteristics in that they are all based on sound science, all written by local stakeholder groups in partnership with the relevant regulatory agencies, and all approved by the local and State governments that will be principal partners in implementation. Local citizens guide the development and implementation of their plans, and work to leverage federal and State dollars with contributions from local governments and the private sector.

In other words, the National Estuary Program is clearly not the "command-and-control" type of EPA program. Rather, it is a program where local governments, citizens and the private sector come together and agree as to how the management of the Nation's estuaries will occur. Only with the full support of the local sector is the proposed CCMP submitted to the Governor and E.P.A. Administrator for approval. Thus, it is the States, in close coordination with the local and federal governments, that create and implement new, non-adversarial and cost effective CCMP's, in contrast to the "command-and-control" approach for environmental enhancement.

The 28 National Estuary Programs are building strong public-private partnerships during the development and implementation of the management plans. The Programs work closely with other coastal programs to coordinate initiatives at the State and federal levels, putting great effort into promoting the exchange of data and information between the National Estuary Programs and with other coastal programs. Only with such partnerships will the agreed-upon actions be carried out, changes in the estuaries monitored, and actions reassessed and re-prioritized as needed.

For fiscal year 1998 we are requesting this Subcommittee to assist the National Estuary Program by calling for an increase in EPA's allocation to the National Estuary Program. The National Estuary Program is rounding the turn from the developmental stage to the implementation stage. Our mission is complex. Through the Clean Water Act we are charged with first developing comprehensive conservation and management plans (CCMP's) to address point and nonpoint sources of pollution, and restore and maintain the chemical, physical, and biological integrity of the Nation's estuaries. Next we are charged with coordinating the implementation of the CCMP's with the involved States, Federal and local agencies. It is a substantial and complex job.

FISCAL YEAR 1998 FUNDING REQUEST

As evidence of the Congressional intent to establish a true partnership program, funding for the National Estuary Program is provided through several sections of the Clean Water Act. This requires us to coordinate closely with other Federal and State programs. The National Estuary Program is funded through the following Clean Water Act provisions:

—33 U.S.C. § 1330 (National Estuary Program);

—33 U.S.C. § 1329 (Non-point Pollution Control);

—33 U.S.C. § 1285 (Construction Grants); and
—33 U.S.C. § 1383 (Revolving Loan Funds).

As noted above, the National Estuary Program is advancing from the developmental stage into the implementation stage. Whereas in years past there were just a dozen or so NEP's receiving around $12 million to develop CCMP's, there are now 17 implementing CCMP's with another 11 in the developmental stage. For this reason, we are requesting this Subcommittee to assist the National Estuary Program by calling for EPA to allocate $28.0 million to the National Estuary Program through the National Estuary Program (33 U.S.C. § 1330) authorization of appropriations for fiscal year 1998, to fund the continued development of CCMP's and refinement of approved CCMP's. The increased funding is necessary because there are now 28 National Estuary Programs, and federal partnership support at a minimum of $1.0 million is needed to fully advance the mission and goals of each NEP.

Further, as the National Estuary Program progresses into the implementation stage, the need for coordination with other Clean Water Act programs increases. The success of the National Estuary Program's implementation depends on our ability to do what the Clean Water Act requires of us—coordinate with the Construction, Non-point Pollution Control and Revolving Loan Fund programs. Our implementation funding is contingent upon receiving a portion of these other Clean Water Act program funds. For this reason we are requesting this Subcommittee to assist the National Estuary Program by recognizing the significance of fulfilling one of the central missions of the Clean Water Act by getting 17 CCMP's approved. We ask this Subcommittee to direct the U.S. Environmental Protection Agency to (1) give priority consideration to the use of the following funds for CCMP Implementation, and (2) to relay the same priority consideration to the States in agreements concerning the use of such funds: Construction Grant Funding (33 U.S.C. § 1285); Nonpoint Pollution Control Program Funding (33 U.S.C. § 1329); and Revolving Loan Funds (33 U.S.C. § 1383).

To assist this Subcommittee with your work, we offer some suggested Report language to assist the National Estuary Program with its mission. Thank you, Mr. Chairman, for the opportunity to present our views to this Appropriations Subcommittee.

### SUGGESTED REPORT LANGUAGE

In making this fiscal year 1998 authorization of appropriations, the U.S. Congress recognizes the national importance of bays and estuaries to the economic health of the country, as well as the standard of living of its citizens. We also recognize the increasing pressures being brought to bear on these finite resources. Further, we recognize the success of the National Estuary Program in bringing together local citizens with all levels of government to develop and implement long-term management plans. Such efforts have created enduring partnerships that are in this nation's best interest to support. The National Estuary Program minimizes the regulatory burden of the federal government, and reduces litigation over resource conflict, while at the same time protecting these vital economic and biological resources from further degradation—and actually improving them. Therefore, it is our intent that the U.S. Environmental Protection Agency allocate $28.0 million through the National Estuary Program (33 U.S.C. § 1330) authorization of appropriations for fiscal year 1998. Further, it is our expectation that the U.S. Environmental Protection Agency will give priority consideration and support to the use of the Construction Grant Program (33 U.S.C. § 1285), the Nonpoint Pollution Control Program (33 U.S.C. § 1329) and the Revolving Loan Funds (33 U.S.C. § 1383) for the implementation of approved CCMP's. The U.S. Environmental Protection Agency should likewise relay the same priority consideration to the States in agreements concerning the use of these funds.

---

## PREPARED STATEMENT OF JOHN H. SULLIVAN, DEPUTY EXECUTIVE DIRECTOR, AMERICAN WATER WORKS ASSOCIATION

### INTRODUCTION

The American Water Works Association (AWWA) appreciates the opportunity to present its views on the Environmental Protection Agency (EPA) budget for fiscal year 1998. AWWA is the world's largest and oldest scientific and educational association representing drinking water supply professionals. The association's 55,000 plus members are comprised of administrators, utility operators, professional engineers, contractors, manufacturers, scientists, professors and health professionals. The association's membership includes over 3,800 utilities which provides over 80

percent of the nation's drinking water. Since our founding in 1881, AWWA and its members have been dedicated to providing safe drinking water.

AWWA utility members are regulated under the Safe Drinking Water Act (SDWA) and other statutes. AWWA believes few environmental activities are more important to the health of this country than assuring the protection of water supply sources, and the treatment, distribution and consumption of a safe and healthful supply of drinking water. AWWA strongly supports adequate levels of funding for EPA's drinking water and ground water programs.

REQUEST OVERVIEW

Adequate funding for capitalization of the Drinking Water State Revolving Fund (DWSRF) and funding drinking water research are the two major areas of concern to AWWA in the EPA fiscal year 1998 budget request. AWWA does not believe that the fiscal year 1998 EPA budget request for capitalizing the drinking water state revolving fund and for drinking water research is adequate. AWWA recommends an increase over the funds requested by EPA for these programs. It should be noted that these programs, particularly drinking water health effects research, involve areas where relatively small funding increases offer significantly great public health, environmental and economic benefits to the nation's population. In the fiscal year 1998 EPA budget, AWWA recommends that the following funding be specifically appropriated for the indicated purpose:

—For the drinking water state revolving fund: $1,000,000,000.

—For drinking water research: $39,500,000. (Designate adequate funding specifically for health effects research.)

—For the EPA/AWWA Research Foundation drinking water research partnership: $5,000,000 (to be matched by the AWWA Research Foundation and public water suppliers).

—For the arsenic research partnership: $1,000,000 (to be matched by the AWWA Research Foundation and public water suppliers).

—For public water system supervision (PWSS) grants to states: $100,000,000. (Total state, local and tribal drinking water program grants: $114,300,000.)

—For the EPA drinking water program: $105,300,000.

DRINKING WATER STATE REVOLVING FUND (DWSRF)

AWWA does not believe that the fiscal year 1998 EPA budget request for capitalizing the newly authorized DWSRF is adequate to meet the nation's drinking water needs. The SDWA Amendments of 1996 authorized for the DWSRF $599,000,000 for fiscal year 1994 and $1,000,000,000 for fiscal years 1995 through 2003. The SDWA further authorizes that authorized funds not appropriated in a fiscal year may be appropriated in subsequent fiscal years until fiscal year 2004. Through fiscal year 1997, Congress has appropriated approximately $1.3 billion—a shortfall of $2.3 billion from funds authorized for the DWSRF.

According to the EPA Drinking Water Infrastructure Needs Survey released on January 31, 1997, $12.1 billion is needed in the immediate future to protect drinking water supplies. Of this amount, $10.2 billion, or 84 percent, is needed to protect water from microbial contaminants which can produce immediate illness or death. Over the next 20 years $138.4 billion will be needed to upgrade the infrastructure of the nation's water utilities.

Given that funding for the DWSRF is already behind and the enormous need, now is not the time to be scaling back federal commitment to the DWSRF to $725 million for fiscal year 1998. Congress and the Administration should be playing catch-up AWWA urges Congress to appropriate at least the $1 billion authorized for the DWSRF in fiscal year 1998.

Although it represents only a fraction of the need, the amount recommended by AWWA for the DWSRF will be a start and provide a source of much needed loans for financial disadvantaged communities which cannot obtain financing through other means. The federal funds will leverage state resources by ultimately becoming a revolving fund that would no longer require federal funding. The DWSRF would partially fund the unfunded mandates of the SDWA.

*Recommended action in the fiscal year 1998 budget.*—Appropriate at least $1,000,000,000 for capitalization grants for the drinking water state revolving fund.

DRINKING WATER RESEARCH FUNDING

AWWA does not believe that the fiscal year 1998 EPA budget request for drinking water research is adequate. The use of good science as the foundation of the new drinking water standard-setting process under the SDWA amendments of 1996 will require extensive drinking water research—particularly health effects research.

Funding for drinking water research is becoming more of a critical issue. The use of good science as the foundation of the new standard-setting process under the 1996 SDWA Amendments will require extensive drinking water research. The 1996 SDWA Amendments require EPA to develop comprehensive research plans for Microbial/Disinfection By-Products (M/DBP) and arsenic as well as other contaminants. An estimated total of over $100 million is needed for the combined arsenic and M/DBP research plans promulgating regulations within the next five years as required by the SDWA amendments of 1996, and this figure does not include other needed drinking water research on radon, sulfate, endocrine disrupters, and other contaminants that will require additional occurrence, treatment, and health effects research based on EPA's new Contaminant Identification Method. It will take at least five years to conduct the necessary arsenic and M/DBP research based on EPA's fiscal year 1998 budget request of $35.9 million for drinking water research (out of a total research budget request of $614.3 million)—a decrease of $3.5 million from the fiscal year 1997 level. This level of drinking water research does not meet the statutory needs of the 1996 SDWA Amendments and will result in either delayed regulations or regulations promulgated without the necessary research.

Given that drinking water research has long been underfunded and the enormous need for immediate research to meet the deadlines of the SDWA amendments of 1996, now is not the time to be scaling back federal commitment to drinking water research by nearly $3.5 million for fiscal year 1998. AWWA urges Congress to restore the $3.5 million decrease and appropriate at least the $39.5 million authorized for drinking water research in fiscal year 1998 by the House Committee on Science in H.R. 1276.

*Health effects research*.—The decline in real funding levels for drinking water programs is nowhere better illustrated than in health effects research. As requirements to regulate drinking water contaminants have grown dramatically, the health effects research budget has decreased precipitously. Despite the mandate of the 1986 amendments to the SDWA, which more than quadrupled the number of contaminants EPA was to regulate, funding for health effects research on contaminants has dropped continuously from a 1982 level of almost $10 million to the fiscal year 1996 EPA budget's all time low request of less than $2 million. In fiscal year 1997 Congress designated $10 million for EPA to spend on health effects research. AWWA appreciates this appropriation and thanks the members of the committee. Without such substantial investments on a continuing annual basis, EPA and public water suppliers cannot assure the American public that the contaminants selected for regulation are the appropriate ones or that health standards have been adequately established.

The SDWA amendments of 1996 require EPA to reserve $10 million from the drinking water state revolving fund (DWSRF) appropriation for health effects studies on drinking water contaminants. The DWSRF set aside would provide a continuous stream of funding for the much needed health effects research through fiscal year 2003. EPA is already falling behind in the research needed to implement the SDWA amendments of 1996 making this additional dedicated source of funding all the more critical. AWWA urges Congress and the Administration to reserve the $10 million from the DWSRF in addition to the drinking water research funds recommended by AWWA for the fiscal year 1998 EPA budget.

*Microbial contaminants, disinfectants and disinfection by-products*.—Research on microbial contaminants and disinfectants and disinfection by-products is a critical need. Each day there are roughly 50,000 deaths in the world attributed to microbial contamination of drinking water. This threat has essentially been eliminated in the United States through disinfection of drinking water. It is now known, however, that disinfection of drinking water can produce chemical by-products, some of which are suspected potential human carcinogens or may cause other toxic effects. Controlling risks from these by-products must be carefully balanced against microbial risks to ensure that when reducing disinfection levels to lower by-product risk, significant microbial risks faced by the majority of the world's population are not created.

Research on disinfectants and disinfection by-products, as endorsed by the National Academy of Sciences and EPA's Science Advisory Board, is essential. The cost to the nation of disinfection by-products regulation under the SDWA could be as low as several billion dollars or as high as $60 billion or more. An appropriate investment in health effects research will ensure that costs of regulation will be commensurate with the health benefit and not driven to extremes because of the lack of data.

Cryptosporidium has emerged as a microbial pathogen of major concern to drinking water supplies. The Centers for Disease Control, in correspondence with EPA, has pointed out that extensive research on the health implications of the pathogen and dramatic improvements in analytical methods for its detection are necessary be-

fore it is possible to evaluate the public health implications of its occurrence at low levels and determine the appropriate regulatory response. Adequate funding for research on cryptosporidium is essential to protect the health of millions of Americans.

*Recommended action in the fiscal year 1998 budget*.—Appropriate $39,500,000 for drinking water research; and designate adequate funds specifically for continuing health effects research to meet the requirements of the SDWA.

RESEARCH MATCHING GRANTS

*EPA/AWWARF research partnership*.—In a separate statement, the AWWA Research Foundation (AWWARF), (an organization independent of AWWA), requested that $5 million in drinking water research funds be designated specifically for the EPA/AWWARF drinking water partnership. AWWARF and public water suppliers will match the grant dollar-for-dollar. AWWA strongly believes that this kind of local/federal research partnership is a wise and cost effective use of public funds and the only way to secure science based drinking water regulations in these difficult budgetary times. The AWWARF funds are being used to support priority drinking water research needs including disinfection by-products and cryptosporidium.

*Arsenic research partnership*.—The regulation of arsenic, which occurs naturally at low levels in some drinking water supplies, presents a unique regulatory situation. While the effects of arsenic at levels in excess of those typically found naturally in the nation's water supplies are well studied, there is a lack of data and serious scientific debate on the effects of the naturally occurring low levels of arsenic in drinking water. EPA, AWWARF and the Association of California Water Agencies (ACWA) have joined in a partnership to examine this complex issue. In a separate statement, AWWARF requested that $1 million in drinking water research funds be designated specifically for the Arsenic Research Partnership. AWWARF and public water suppliers will match the grant dollar-for-dollar.

*Recommended action in the fiscal year 1998 budget*.—Appropriate $5,000,000 specifically designated for the EPA/AWWA Research foundation drinking water research partnership (to be matched by the AWWA Research Foundation and public water suppliers).

Appropriate $1,000,000 specifically designated for the arsenic research partnership (to be matched by the AWWA Research Foundation and public water suppliers).

PUBLIC WATER SYSTEM SUPERVISION GRANTS

To comply with the SDWA, Congress intended that EPA develop drinking water regulations and that the states implement and administer the program to ensure compliance with and enforcement of its provisions. Implementation, administration, compliance and enforcement activities are collectively known as "primacy" requirements and federal grants to the states are known as Public Water System Supervision (PWSS) grants. The massive demands on states arising from the SDWA have become increasingly apparent because of the dramatic increase in the number of regulated contaminants over the past few years.

As each regulation is added, state resource shortfalls become more acute. The SDWA authorizes a federal share of up to 75 percent, but federal funding has approximated only 35 percent. The difference between state and federal shares of the program has become so great that states have been threatened continuously with the loss of primacy. Should this occur, public health protection will suffer a major setback. According to the Association of State Drinking Water Administrators, the present PWSS needs in all states is over $200 million per year with additional regulations scheduled to be promulgated over the next few years. Additionally the SDWA Amendments of 1996 added new responsibilities for the states such as source water assessments, a consumer confidence report program and alternative monitoring programs.

EPA's budget request for fiscal year 1998 would not raise PWSS funding for states from its present level of $90,000,000. The increase in state, local and tribal drinking water program grants to a total of $104,300,000 reflects an increase for tribal grants only and not the PWSS grants to states. AWWA strongly urges Congress to appropriate the $100,000,000 authorized for PWSS grants to states as the minimum necessary.

*Recommended action in the fiscal year 1998 budget*.—Appropriate $100,000,000 for Public Water System Supervision (PWSS) grants to states. (Total state, local and tribal drinking water program grants: $114,300,000.)

EPA DRINKING WATER PROGRAM

EPA's drinking water program took on greatly increased responsibilities in the 1996 SDWA amendments. These responsibilities included developing a new regulatory process requiring additional science and risk analysis for regulations, create a contaminant occurrence data base and methodology to select contaminants for regulation, promulgate microbial and disinfectant/disinfection by-products regulations, identify new treatment technologies for small systems, administer the newly created drinking water state revolving fund, and develop regulations and guidelines for consumer confidence reports, operator certification programs, source water assessment and monitoring relief

In satisfying these requirements, EPA has involved the public in the regulatory process to an extent not equalled by another federal agency and stands as a model for federal rule making. EPA has involved private citizens, scientists, drinking water professionals, medical professionals, public health officials, economists, and environmental and consumer advocacy representatives, as well as other experts in providing recommendations and how to carry out these new regulatory responsibilities. EPA and the Office of Drinking Water and Ground Water are to be commended for taking this new approach which should result in better regulations that protect public health.

Because of its exemplary approach to reforming the regulatory process, the EPA drinking water program budget request should not be cut to meet overall federal budget constraints. AWWA believes that the funding requested for the EPA drinking water program in the EPA fiscal year 1998 budget request is vital to continue this new regulatory approach and urges Congress to appropriate the requested funds.

*Recommended action in the fiscal year 1998 budget*.—Appropriate $105,300,000 for the EPA drinking water program.

This concludes the AWWA statement on the fiscal year 1998 EPA budget.

---

PREPARED STATEMENT OF JAMES H. SCHLENDER, EXECUTIVE ADMINISTRATOR, GREAT LAKES INDIAN FISH AND WILDLIFE COMMISSION

*Agency involved*: Environmental Protection Agency

*Fiscal year 1998 Appropriations requested*: $330,280

*Project*: Intertribal Lake Superior basin initiative

*Project description*: To build on previous successes, the Commission requests that Congress earmark $330,280 from the EPA's fiscal year 1998 Great Lakes National Policy Office and Coastal Environmental Management (CEM) Programs to:

—through intergovernmental partnerships and liaison with other organizations, develop, coordinate, and implement tribal strategies to protect the Lake Superior ecosystem in conjunction with the Binational Program, Lake Superior Lakewide Management Plan (LaMP); International Joint Commission (IJC) meetings; and State of the Lakes Ecosystem Conference (SOLEC) forums at a cost of $60,000; and

—assess off-reservation environmental impacts from activities proposed by Crandon Mining Company and other potential mining projects in Wisconsin at a cost of $196,404; and

—expand cooperative contaminant studies for fish, animals, and plants used by tribal members under rights reserved in the 1837 and 1842 treaties with the United States at a cost of $73,876.

*Authorization*: The Clean Water Act designates the Great Lakes National Program Office (GLNPO) to develop and implement action plans to carry out the United States' responsibilities under the Great Lakes Water Quality Agreement and subsequent amending Agreements. GLNPO is directed to perform these functions in cooperation with tribal agencies, among others. 33 U.S.C. § 1268(c). In the Commission's view, this is sufficient authority for Congress to provide funding for tribal organizations, such as the Commission, to undertake initiatives related to Great Lakes water quality. In fiscal year 1997, GLIFWC will administer $101,383 in Coastal Environmental Management (CEM) funds from the EPA to facilitate tribal participation in the Binational program and address environmental concerns from activities proposed by Crandon Mining Company.

BACKGROUND

Comprised of eleven tribal governments located throughout Minnesota, Wisconsin, and Michigan, the Commission's purpose is to protect and enhance treaty guaranteed rights to hunt, fish, and gather on inland territories ceded under the Chippewa

treaties of 1836, 1837, and 1842; to protect and enhance treaty guaranteed fishing on the Great Lakes; and to provide cooperative management and protection of these resources. Tribal members rely upon fish, wildlife, and plants for religious, ceremonial, medicinal, subsistence, economic, and cultural purposes. Any contamination from environmental degradation threatens the health, safety, and economy of Chippewa people.

It is essential to maintain and expand EPA funding levels in fiscal year 1998 or much of the Tribes' progress in the environmental arena will be lost. Existing Commission funding sources, in particular BIA funds, are increasingly stressed because of a required expansion of Commission services to its member Tribes throughout the 1837 ceded territory. Recent court developments have resulted in tribal implementation of treaty rights in the entire 1837 ceded territory which includes the northern third of Wisconsin and the central portion of Minnesota. Continued progress on environmental initiatives depends upon the Commissions's fiscal year 1998 EPA Appropriations request being funded.

GREAT LAKES DECISION MAKING AND INTERGOVERNMENTAL PARTNERSHIPS COMPONENT

EPA's Indian Policy stresses the themes of strengthening tribal self-government and working with tribes on a government-to-government basis. Unfortunately, lack of adequate funding has made this policy ineffective in regard to tribal participation in the development and implementation of strategies to protect the Great Lakes ecosystem. The Commission is requesting that Congress earmark $60,000 immediately from the Great Lakes National Policy Office or Coastal Environmental Management (CEM) Program to rectify this problem and to:

—provide a capacity-building grant to enable the Commission to participate in Great Lakes environmental policy-making, and

—provide funds for technical projects so that the Commission is able to contribute to technical working groups and adequately review technical documents.

EPA funding will be used by GLIFWC to research environmental issues, facilitate discussion and build consensus between tribal leaders, and develop formal positions to be forwarded to appropriate agencies. These efforts would complement the ongoing efforts by Commission member tribes to develop their governmental positions.

Funding from EPA is also needed to facilitate the Commission's long term participation in the development of Remedial Action Plans (RAP's) and the Binational Program to Restore and Protect Lake Superior. The Commission is proposing to participate in both the Binational Program's Task Force of senior governmental natural resource managers and Workgroup comprised of technical and scientific professionals.

The Commission would further assist member tribes in establishing meaningful liaison with the wide number of organizations working to protect the Great Lakes basin ecosystem, including the International Joint Commission (IJC) and the Binational Executive Committee for the Great Lakes.

ASSESSMENT OF OFF-RESERVATION ENVIRONMENTAL IMPACTS FROM PROPOSED MINING ACTIVITIES

Tribes are concerned that mining development within the 1837 and 1842 ceded territories will have environmental impacts upon treaty harvested resources. The Commission is requesting a $196,404 earmark from EPA to fund scientific and policy analysis capabilities to address mining related issues. Currently 15 mineral deposits have been identified in the ceded territory. These deposits are expected to possess a wide range of mineral resources including copper, zinc, uranium, lead, and vanadium.

The extraction of these resources poses significant environmental dangers. For this reason, mining proposals will be highly controversial both politically and scientifically. Tribes will require sound science and rational policy development to effectively address mining issues. The Commission's ability to provide this expertise to its member tribes will assist in analyzing technical issues, communicating factual information, and developing partnerships with other governments and resource managers. Funding to address off-reservation environmental concerns is particularly urgent given the Wisconsin Department of Natural Resource's announcement that it intends to complete and submit its Environmental Impact Statement (EIS) for public comment in 1998.

COOPERATIVE CEDED TERRITORY CONTAMINANT STUDIES

The Commission is requesting a $73,876 earmark from EPA to fund cooperative contaminant studies in the 1837 and 1842 ceded territories. Tribes are concerned that the fish, wildlife, and plants upon which they rely for subsistence, cultural, and

economic purposes are becoming degraded, threatening their health, safety, and reservation economies.

Tribal members retain a close relationship to their environment and are directly impacted when toxins enter the Great Lakes food chain. Under treaty reserved rights, tribal members harvested, processed, and consumed: 86,045 walleye; 1,740 musky; 1,757 northern pike; 11,045 whitetailed deer; 153 bear; 5,725 ducks; geese; and 70,424 pounds of wild rice from 1993 to 1995.

In recent years, potentially dangerous levels of mercury, PCB's, and other chemicals have been documented in fish throughout the Great Lakes region. Scientific studies have confirmed the direct correlation between consumption of fish with high mercury and PCB levels and adverse health effects. These include short-term memory and attention deficits in children. The Wisconsin Department of Health recommends limiting consumption of fish with .5 ppm and no consumption of fish with 1 ppm or greater. Given the tribes' heavy consumption of fish, the risks are obvious.

In 1996, the Commission collected 384 walleye samples from 66 study lakes in Wisconsin to test mercury levels and establish a baseline from which contaminant trends can be identified in the future. Samples were then tested in a laboratory under a cooperative agreement with U.W.-Superior's Lake Superior Research Institute. Geographic Information System (GIS) maps were prepared from this data informing both tribal members, and their non-Indian neighbors, which lakes possessed walleye containing mercury levels at or above .5 ppm—the level at which the Wisconsin Division of Health advised pregnant women, breast feeding mothers, and children should restrict their consumption of fish. Findings and data from this tribal project is now being used by the University of Wisconsin Medical College at Milwaukee in Agency for Toxic Substance and Disease Registry (ATSDR) research analyzing environmental risks to Indian people who consume fish. On the last page of this testimony I have submitted a GIS map indicating mercury levels in fish harvested and consumed by Lac Courte Oreilles tribal members including myself.

The Commission requests $13,726 annually to continue testing methyl mercury levels of fish harvested on long term study lakes and lakes with insufficient data. This will assist scientists in monitoring long term mercury trends in walleye harvested by tribal members and more effectively protect the health and safety of tribal members in lakes previously not sampled.

"Monitoring the health of wildlife provides an early warning system for declining quality of ecosystems, allows understanding of the effects of environmental pollutants at the population level, and serves as a means for estimating risks to human health". (Contaminants in Minnesota Wildlife 1989–1991, Keren L. Ensor, Minnesota Pollution Control Agency, July 1993). To address tribal concerns the Commission is requesting an EPA earmark of $20,000 to conduct heavy metal testing on wildlife and establish a baseline from which contaminant trends can be identified in the future. This program would be integrated into ongoing ecosystem inventories and assessments being conducted by the Commission in the 1837 and 1842 ceded territories.

In addition to harvesting natural resources for subsistence and cultural purposes, tribal members also harvest and market Lake Superior's commercial fishery. This fishery is important to the economy of tribes on Lake Superior and from 1993 to 1995 totaled 405,319 pounds of lake trout; 366,563 pounds of siscowet trout; 977,023 pounds of white fish; and 143,317 pounds of herring. Trend information on contaminants is needed to determine if contaminant levels are increasing, decreasing, or remaining stable. Spatial information (i.e. GIS mapping formats) on contaminants in indicator species is needed to determine whether contaminant levels differ among areas within the Lake Superior basin that are fished, harvested, consumed, and marketed by tribal members.

The Commission is requesting $40,150 to establish baseline contaminant levels for mercury, copper, cadmium, lead, PCB's, and organochlorines in eight indicator species of Lake Superior fish. Composite samples are to be taken from spawning reefs in conjunction with ongoing stock assessments and include all Lake Superior fishery food chain levels—bottom feeders, prey and predators.

The expanded program we propose would provide more and better data on ecosystem contamination, permitting contaminant analysis from a long-term perspective. Our goal is to provide more complete information so that tribal members can make well-informed decisions about eating natural resources harvested under treaty, and involved governments can adopt necessary pollution control measures.

PREPARED STATEMENT OF GARY A. GLENN, PRESIDENT, MASSACHUSETTS FOUNDATION FOR EXCELLENCE IN MARINE AND POLYMER SCIENCES

I am proud to submit this testimony on behalf of a grouping of communities in Vermont, California, Massachusetts, Hawaii, and elsewhere that are involved in testing a low cost, ecological technology for reviving and reusing wastewater. The communities are putting their own hard pressed resources into this cost effective but still experimental technology, and are pleased that Congress has provided funds to EPA to assist in the project. The data from the locations where the new technology is being tested, taken together, and in accordance with EPA guidelines, will provide the best conceivable basis for determining the extent to which this technology can be adopted by communities across the country. The different locations represent varied geographical conditions so that the results will represent a true cross section of the United States. In order to complete testing at the demonstration projects already begun, and to provide for assembly and testing of a demonstration ecological unit, we request $2.25 million for fiscal year 1997. These funds will allow approximately $1.5 million for a project in the State of Hawaii that will focus on use of native Hawaiian plants and animals in wastewater cleansing; and $750,000 to continue essential testing of the state-of-the-art facility in Vermont.

This project fits very well into the ideas and concepts enunciated by both parties in this Congress. This technology is intended to be community-based and community-specific, as opposed to being centrally mandated. Each and every local community in the United States will be able to select from a menu of wastewater treatment options, and can weigh cost factors, speed of clean-up, size of facility, and water reuse alternatives. Thus local communities (as well as counties and states) will have expanded freedom in deciding upon wastewater treatments.

The role of the federal government in this project is very limited, very specific, and very short term. The only reason for federal government involvement is to collect carefully calibrated data on the operation of each system so that local communities will have the data necessary for decision making. Once this data has been collected over a period of time sufficient to demonstrate the technology's effectiveness and cost, no further federal funds will be necessary for demonstrating the system.

It is intended that operation of advanced ecologically engineered systems will be less expensive for treatment of wastewater than other kinds of technologies. This will save taxpayer dollars at the federal, state, and local levels.

The purpose of advanced ecological engineering systems is to treat wastewater and its by-products by using natural processes of sunlight, plants, and animals in a carefully balanced ecosystem. Untreated or inadequately treated sewage, septage and sludge have become one of the world's most pressing problems, causing the contamination of drinking water supplies and coastal marine waters. This is a particularly acute problem in the U.S. because of our high rate of consumption and multiple use pressures on our water systems. Public support for environmental conservation and reuse of resources continues, but new methods for dealing with the protection of our waters are needed.

The ecologically engineered system that has been developed by Dr. John Todd and his associated scientists and engineers removes both nutrients and toxic substances from polluted water by channeling it through a series of cylindrical tanks or raceways placed in rows inside a greenhouse. The tanks are exposed to sunlight and contain a carefully designed progression of bacteria, algae, snails and fish. Wastewater is pumped into the first tanks where microscopic bacteria attack or consume organic matter, thus causing their populations to grow. Algae thrive on the nutrients released by the bacteria, and they increase. Snails consume the algae, and the cycle goes on, all the while transforming the wastewater. Further on, different varieties of plants are grown on the surface of the water, allowing their oxygen-rich roots to fall beneath the surface where snails and higher organisms graze. In the last tanks fish such as tilapia and bass swim around in clean water. By imitating the way nature purifies water, only more quickly and thoroughly, this system represents a dramatic departure from conventional methods.

This ecological wastewater system is truly effective—not only because it uses new and unexpected ways of treating wastewater, but also because it asks all of us as citizens to think about what "waste" means. The traditional method of dealing with vast quantities of wastewater produced by our homes and businesses has been to add chemicals to kill the potentially toxic organisms and to neutralize the toxic inorganic chemicals. All cities in America have at least one and often several major treatment plants that attempt to kill and/or neutralize wastewater toxicity. These plants use the same kind of approach that farmers use with unwanted bugs (applying chemical pesticides) or localities use with solid waste (burning it or dumping it

in the ocean or filling the land with it). The principle behind ecological engineering is deceptively simple: let nature take care of breaking down the toxins in wastewater in its own way, that is, with natural organisms including microbial life forms, plants, and animals. In practice, however, the engineering of a dedicated living ecosystem containing hundreds or thousands of organisms is phenomenally complex. It is only because of scientific breakthroughs in microbiology, plant science and pathology, biotechnology, and ecology/environmental science that have occurred in recent years that this kind of system engineering is now possible.

The Massachusetts Foundation for Excellence in Marine and Polymer Sciences is acting as the coordinator for the various locations where this nature-based technology is being tested. We collect data from all locations, prepare comparative reports, and interact with EPA on matters of consortium interest. On behalf of the participating local and state entities, we request the support of this committee in providing continuation funding from EPA so that we can maintain operations, testing, and facility assembly at demonstration sites in Vermont, Hawaii, California, Massachusetts, and elsewhere.

---

PREPARED STATEMENT OF DR. ROBERT J. MASON, DIRECTOR, ENVIRONMENTAL LUNG CENTER, NATIONAL JEWISH MEDICAL AND RESEARCH CENTER

Mr. Chairman, and Members of the Subcommittee, thank you for the opportunity to submit testimony to the hearing record regarding the newly established Environmental Lung Center at the National Jewish Medical and Research Center in Denver, Colorado. The National Jewish Center, formerly the National Jewish Center for Immunology and Respiratory Medicine, is the world's foremost center for the study and treatment of lung disease.

As you know, there was a $750,000 set aside in fiscal year 1997 EPA Appropriations for research at the Environmental Lung Center. We are currently in the process of applying for that funding through the Environmental Protection Agency's peer review process and, after some preliminary discussions with EPA officials, we believe that a very productive relationship with the agency has been fostered. Essentially, the mission of the Environmental Lung Center will be to provide the sound science necessary to assist the agency with regulatory policy in specific areas.

Generally speaking, the Environmental Lung Center is building upon 100 years of expertise in this specific science. The goals of the Center include discovering the molecular mechanisms for environmental and lung disease, including asthma and lung cancer; providing a scientific basis for evaluating health hazards of indoor air pollution; identifying the genetic and molecular basis for individual susceptibility to environmental lung disease; and identifying the risk and effect of air pollution on patients with pre-existing pulmonary disease.

This research is extremely important given the fact that in the United States, lung disease is the leading cause of death. It is now well known that man-made environmental and occupational pollutants contribute significantly to the rising numbers of those afflicted, particularly impacting residents and commuters to urban areas and those who work in occupations such as mining, construction, textiles and the military. Indoor air pollution and improper ventilation also cause the spread of respiratory illnesses. To eradicate these illnesses and address general environmental concerns, the Clean Air Act authorized EPA to set exposure standards for six widespread air pollutants. As you know, these standards continue to provoke heated debate in the scientific and regulatory communities. Our task is to find out the extent to which the exposure thresholds are true, as measured against individual susceptibility, and to assist the regulatory bodies in this country to come up with decisions regarding toxic thresholds of compounds and the medical relevance of the EPA's fixed testing-station data to surrounding populations.

As the only high ranking institute in the nation that concentrates on lung disease and the only one that sees patients as well as conducts research, National Jewish has made great contributions to the advancement of medical knowledge about the effects of environmental pollutants on the human pulmonary system. Its location in Denver is significant in that the city is plagued with environmental pollutants (nearly 300,000 Colorado residents have chronic lung disease, which is well above the national average, although our patients come from all 50 states). Our dedicated research at National Jewish has shown definite linkages between certain types of ambient air pollutants and asthma. We are currently exploring this further, along with the effects of certain pollutants on other lung and pulmonary diseases.

The Environmental Lung Center's research efforts will range broadly from studies of molecular biology and immunology, to direct studies of air pollution on patients with lung disease. The focus of our work during the current year will be on the spe-

cial features of the lung as an immune organ, the pathogenesis of oxidant and particulate inhalation injuries, and two specific cohorts of patients, chronic beryllium disease and asbestosis. For the purposes of this testimony, I will describe the proposed studies in a very general way that will give the Subcommittee a view into the complexities of determining safe levels of airborne toxins given human susceptibility factors.

We know that the lung has a unique microenvironment to suppress inflammation so as to minimize injury to its delicate gas exchange units. We believe that alterations in these specific adaptations account for individual susceptibility to environmental hazards. So, in terms of the immune system, we will focus on the critical components of immunity affecting the mucosal (pertaining to the mucous membranes) immunity. These components are called the gamma/delta T lymphocytes. In addition, we will focus on two surface-active proteins which are a unique part of the immune system of the lung. We have been able to clone these proteins and make recombinant proteins for determining precise structure and function relationships. We are studying the effects of these proteins to block specific infections. In another project, we will characterize the antioxidant properties of the lung which are critical to protection to the ozone and particulates. We will begin our studies on respiratory viral infections, which we believe greatly worsen the effects of air pollution, particularly those with pre-existing lung disease. One of the most common occupational pulmonary diseases in the aerospace industry is chronic beryllium disease. We are close to determining the molecular mechanism of this important immunologic disease. This will be the first time that an antigen receptor on a T lymphocyte has been defined precisely for a metal. We also have a cohort of patients with asbestosis which will provide us with the opportunity of evaluating the value of sputum cytology for the detection of lung cancer in this highly susceptible population. Although it may seem that sputum cytology would be useful for screening for lung cancer, earlier studies (which may have been flawed) with lower risk patients did not establish the benefit of this approach for this purpose. This may be worth exploring again in the future since lung cancer is the number one killer in this country.

In the next year we are requesting $750,000 to continue these projects and develop our ability to perform gene transfer and gene knock out experiments in mice. The most exciting new technology is the use of inducible promoters to turn on a certain gene in a specified cell at a particular time. The technical components for doing this in the respiratory epithelium are available, but accomplishing this feat remains an exciting but formidable challenge for the next year. With this technology we will be able to turn on a specific gene at a particular site in the lung to defend against an environmental agent of interest.

The major thrust for the next five years is to take advantage of modern molecular biology and genetics in order to study environmental lung disease. Never before have researchers had the ability to determine the genetic basis for individual susceptibility and the molecular mechanisms of disease. Our institution is internationally known for its research in immunology, and we want to utilize this expertise to study environmental lung disease. In order to accomplish this goal, we need to expand our research facilities and core units in order to accommodate these new programs. We will commit at least 2.5 million dollars in matching funds, and we are requesting 2.0 million dollars to develop these research facilities.

Mr. Chairman, we believe that we are the best partner to provide the type of sound scientific research necessary to assist the agency with its regulatory decision-making goals. Our desire is to grow this relationship and hope that the subcommittee will provide $750,000 to continue this relationship for another year. Mr. Chairman, our mission is taking us to a new level of research, compounding our need to renovate and expand our current research laboratory. Therefore, we would also like to take this opportunity to present our need for $2 million as a federal share, to be matched by National Jewish, in order to expand our research space. This federal investment will enhance our nation's commitment to protecting the health and safety of its workers, citizens and individuals the world over. The research conducted by the Center will lead to medical breakthroughs and environmental findings that will assist the federal government to set new standards for both government and business. Your support for these efforts will save lives and ultimately, save costs for the federal government and for businesses who are currently struggling to comply with new standards.

Thank you.

## PREPARED STATEMENT OF TERRENCE J. O'BRIEN, PRESIDENT, METROPOLITAN WATER RECLAMATION DISTRICT OF GREATER CHICAGO

I am Terrence J. O'Brien, President of the Metropolitan Water Reclamation District of Greater Chicago, and on behalf of the Water Reclamation District, I want to thank the Subcommittee for this opportunity to present our priority for fiscal year 1998, and express our appreciation for your support of our requests over the years. The Metropolitan Water Reclamation District (MWRD) is the sponsor for the federally approved combined sewer overflow (CSO) project, the Tunnel and Reservoir Plan (TARP), in Chicago, Illinois. Specifically, we are asking that $30 million be included to continue construction of this project in the Subcommittee's VA, HUD and Independent Agencies Appropriations Bill for fiscal year 1998. The following outlines the project and the need for the requested funding.

### INTRODUCTION

The Metropolitan Water Reclamation District was established in 1889 and has the responsibility for sewage treatment, flood control and stormwater management in Cook County, Illinois. In fact, the District was established, in response to an epidemic which killed 90,000 people in 1885, for the purpose of addressing the local sewage problems and by 1900, had reversed the flows of the Chicago and Calumet Rivers to carry combined sewage away from Lake Michigan, the area's main source of water supply. The District has been involved with major engineering feats since its inception.

In an effort to meet the water quality goals of the Clean Water Act, to prevent backflows into Lake Michigan, and to provide an outlet for flood waters, the Metropolitan Water Reclamation District of Greater Chicago designed the innovative two-phase Tunnel and Reservoir Plan. TARP Phase I, which was judged by the EPA on two occasions as the most cost-effective plan available to meet the enforceable provisions of the Clean Water Act, is a combined sewer overflow elimination system. TARP Phase II, also under construction, will provide flood control relief to hundreds of thousands of residents and businesses in the Chicagoland area.

### TUNNEL AND RESERVOIR PLAN

TARP Phase I is an intricate system of drop shafts, tunnels and pumping stations which will capture combined sewer overflows from a service area of 375 square miles. Chicago will remove four times the amount of combined sewer overflow (CSO) pollution as Boston's projected removal—for approximately the same cost. The Calumet system will provide 3.6 million pounds of biological oxygen demand (BOD) removal versus Boston's one million pounds of BOD removal per year. In fact, Chicago's CSO pollution problems are worse than the combination of Boston, New York, and San Francisco's pollution problems. The Chicago Metropolitan area's annual BOD loading is 43 million pounds per year. This contrasts with the combination of Boston, New York, and San Francisco's combined annual BOD loading of 35 million pounds.

A good portion of the remainder of the TARP system is to be built in the southeast side of Chicago and the southern suburbs (Calumet system), a low-income, highly neglected and highly polluted area. This community suffers from tremendous land, air, and water pollution—literally a dumping ground for multi-media pollution ranging from chemical waste to serious water pollution.

Due to the enormous risk to the community, the Water Reclamation District, as the local sponsor, cannot afford to leave the citizens vulnerable. Therefore, it is imperative that this work must continue. Because the construction industry is already doing work in the area, the climate is favorable for proceeding with this work at this time, producing a significant cost savings. What we are seeking, then, is funding to advance federal work.

We have a proven and cost-effective program. In fact, we have estimated that TARP's cost is about a quarter of the cost of separating the area's existing combined sewer systems into separate sewage and stormwater systems. Upon reanalysis, the EPA has consistently found the TARP program to be the most cost-effective solution that will reduce the impacts by the greatest degree to meet the enforceable requirements of the Act, with the least amount of dollars. The project, while relating most specifically to the 52 tributary municipalities in northeastern Illinois, is also beneficial to our downstream communities such as Joilet and Peoria. These benefits occur because of the capture of wastewater in the tunnels during storm periods and by treatment of the discharge before being released into the waterways.

TARP was designed to give the Chicago metropolitan area the optimal environmental protection that could possibly be provided. More importantly, no other

project was found to be as cost-effective. In addition, the beneficial use of the project is being enhanced by the addition of the flood control reservoirs now being designed and constructed by the Corps of Engineers, which will be connected to the tunnels for additional capture and storage of combined sewage during flood events. We believe TARP stands as a tribute to our nation's Clean Water goals and one that is being accomplished within the most economic constraints.

REQUESTED ACTION

The $30 million we are seeking in fiscal year 1998 funding in the Subcommittee's bill will reimburse the local sponsor for the construction of the Torrence Avenue Leg of the Calumet system of the TARP project. We greatly appreciate the Subcommittee's endorsement of our request over the years to advance the construction of this work. This fiscal year 1998 work will go a long way to address serious water quality, stormwater and safety problems. It will have a tremendously beneficial impact on a community which suffers from water pollution and significant flooding problems. The facilities plan for the overall TARP project has been approved by the EPA and design has been completed. The EPA has identified this particular segment of work as the next critical section of the plan to be constructed based on significant water quality benefits.

Once on-line, the Torrence Avenue Leg of the Calumet System will capture 2.6 billion gallons of CSO's per year and will protect 21 square miles of the City of Chicago from raw sewage backup and flooding.

We urgently request that this funding be included in the Subcommittee's bill for the construction of the Calumet System of the TARP project. We thank you in advance for your consideration of our request.

---

## PREPARED STATEMENT OF HON. ED JENNINGS, MAYOR, CITY OF GAINESVILLE, FL

### THE SWEETWATER BRANCH/PAYNES PRAIRIE STORMWATER PROJECT

Mr. Chairman: On behalf of the City of Gainesville, Florida I appreciate the opportunity to present this written testimony to you today. The City of Gainesville is seeking federal funds in the fiscal year 1998 VA-HUD Appropriations bill, in order to assist our efforts to protect the Florida aquifer from stormwater runoff. In particular, we are hopeful that the Subcommittee will provide the City with $2 million as an EPA Special Assistance Grant.

In Gainesville, the Sweetwater Branch basin contains approximately 1,710 acres and is located in the southeast central portion of the City. The outfall from this basin discharges into Paynes Prairie, a state owned preserve and park system, which eventually flows into the Alachua Sink, a natural sink hole that drains directly into the Florida Aquifer. This Aquifer provides the majority of drinking water to Florida's a residents and has a direct impact on Florida Everglades.

The Sweetwater Branch drainage basin contains urban, commercial, industrial, and residential area stormwater runoff. Because the branch runs through some of the oldest portions of Gainesville, most stormwater runoff is directly discharged into the Branch with very little flooding or pollution removal treatment. The runoff has the potential to affect threatened and endangered wildlife such as the Bald Eagle, the Woodstork, the Florida Sandhill Crane, and the Southeastern American Kestrel. In addition, many domestic water wells are used to obtain water from surficial and intermediate aquifers in the area. In summary, the situation has created a concern among environmentalists, business leaders, and concerned citizens throughout the region that Paynes Prairie and the Florida aquifer are being compromised.

With this in mind, the City of Gainesville, Alachua County, St. Johns River Water Management District, Florida Department of Environmental Protection and local citizens are all seeking a comprehensive ecosystem management solution to the problem of stormwater runoff from downtown entering Sweetwater Branch, Paynes Prairie, and the Alachua Sink. The project devised by these groups would reduce or eliminate the sediment, debris, nutrients and general pollutants currently being discharged. Current projections are that the project would consist of the following three components:

—the purchase of undeveloped property in the vicinity of State Road 331 and Sweetwater Branch;

—the construction of maintainable sediment and debris removal systems; and

—the construction of maintainable nutrient removal systems.

An in-depth engineering analysis of the creek system, property topography, associated wetlands, and other pertinent factors is needed to determine the optimum and appropriate scope of property purchase and facilities construction. The City is pre-

pared to pay some of the cost for this analysis, but we are simply unable to bear the entire burden. As a result, we request that the Subcommittee appropriate $2 million as an EPA Special Assistance Grant to assist our efforts. Once the project construction is complete, Gainesville Stormwater Management Utility, a public utility, would provide the required annual maintenance for the facility and no federal maintenance funds would be needed.

This is a critical and much needed project for the City of Gainesville, as well as the entire State of Florida, and we respectfully ask the Subcommittee for its consideration of the Sweetwater Branch/Paynes Prairie Stormwater Project.

---

## PREPARED STATEMENT OF JOE L. MAUDERLY, SENIOR SCIENTIST AND DIRECTOR OF EXTERNAL AFFAIRS, LOVELACE RESPIRATORY RESEARCH INSTITUTE

It is proposed that the U.S. Environmental Protection Agency establish and support a National Environmental Respiratory Center for the purpose of coordinating research and information transfer concerning health risks of breathing airborne contaminants in the environment. Federal support is specifically requested as part of the fiscal year 1998 appropriation through an account the Subcommittee determines to be appropriate.

### THE ENVIRONMENTAL RESPIRATORY HEALTH DILEMMA

*U.S. Health Burden of Respiratory Disease*

The magnitude of the national health burden caused by respiratory diseases is not widely appreciated. These diseases now kill one out of four Americans. Among cancers, the second leading cause of death, lung cancer is the single largest killer. Nearly 195 thousand new cases of respiratory tract cancer will be diagnosed this year, and 166 thousand Americans will die from these cancers. Lung cancer kills more than twice as many women as breast cancer, and more than twice as many men as prostate cancer. Pneumonia and heart-lung failure are the terminal conditions for many of our elderly. Excluding cancer, chronic respiratory diseases and pneumonia are the third leading cause of death in the U.S., killing over 188 thousand Americans in 1995. Asthma, growing unaccountably in recent decades, now afflicts 15 million Americans, including 5 million children. The incidence of asthma increased 61 percent between 1982 and 1994, and asthma deaths among children nearly doubled between 1980 and 1993. Viral respiratory infections are the most common cause of hospitalization of infants and cause a tremendous loss of productivity in the adult workforce. Occupational lung disease is the number one work-related illness in the U.S. in terms of frequency, severity, and degree of "preventability". Worldwide, three times more people die from tuberculosis than from AIDS.

*Critical Uncertainties Regarding Contributions of Airborne Environmental Contaminants*

Pollutants inhaled in the environment, workplace, and home are known to aggravate asthma and contribute to respiratory illness, but the extent of their role in causing respiratory disease is not clear. It is known that it is possible for airborne irritants, toxins, allergens, carcinogens, and infectious agents to cause cancer, degenerative disease, and infections directly, or indirectly through reduction of normal defenses, but the portion of such diseases caused by, or strongly influenced by, pollution is uncertain.

EPA is repeatedly faced with estimating the health effects of environmental air pollution on the basis of very limited information and in the presence of large uncertainty. For example, environmental radon gas is estimated to be the second leading cause of lung cancer (after smoking), but this estimate comes from our experience with uranium mining, in which the exposure conditions and exposed population were quite different from those in the general environment. As another current example, it is estimated that as many as 40 thousand Americans may die annually from breathing particulate environmental air pollution, but this estimate comes from epidemiological data that do not provide a clear understanding of individuals who were affected, the nature and magnitude of their exposure, the biological processes by which death might have occurred, or the extent to which the effects of particles were independent of other pollutants.

It is difficult to associate health effects with specific pollutant sources. Most environmental air contaminants have multiple sources which produce species of overlapping, but slightly different physical-chemical types. There are few biological markers of exposure which can be used to link health effects to past exposures to pollutant classes, much less to specific pollutants and sources. This makes it very difficult to associate specific pollutant species with specific health effects, identify and prioritize

the sources whose management would most efficiently reduce the effects, and compare potential health gains to the financial, technological, and lifestyle commitments required to achieve them.

EPA faces a critical problem because we have little scientific or regulatory ability to deal with pollutant mixtures. It is recognized that all exposures to air pollutants involve inhalation of complex mixtures of materials, but there is very little research on the health effects of mixtures, or the significance of interactions among combined or sequential exposures to multiple pollutants. The present approach to implementing the National Ambient Air Quality Standards (NAAQS) addresses individual contaminants, or contaminant classes, in isolation. There is little framework for considering the effects of pollutant mixtures, and little ongoing research that will provide a basis for such a framework. We know that multiple pollutants can cause common effects, such as inflammation. We know that some pollutants can amplify the effects of others. We can presume that a mixture of pollutants, each within its acceptable concentration, could present an unacceptable aggregate health risk. We face the possibility, exemplified by current uncertainties about particulate matter, that a pollutant occurring in a mixture might wrongly be assigned sole responsibility for a health effect that, in fact, results from the mixture or an unrecognized copollutant that varies in concert with the accused species. This issue will become increasingly important as pollutant levels are pushed ever lower, and needs coordinated, interdisciplinary attention.

As air pollutant levels are reduced, the problems of correctly linking health effects to the correct species and sources, and of making difficult cost-benefit policy judgments, will increase. The levels of many environmental air contaminants have decreased due to technological developments and regulatory pressures. For example, between 1985 and 1995, concentrations of airborne lead, sulfur dioxide, and carbon monoxide in the U.S. decreased 32 percent, 18 percent, and 16 percent, respectively, and levels of airborne particulate matter decreased 22 percent between 1988 and 1995. Levels of ozone levels and several other pollutants have also decreased. As background levels are approached, decisions regarding: (a) the benefits of further reductions in man-made pollution; (b) the need to consider pollutants as a mixture rather than as individual species; and (c) the point at which small biological changes represent health effects warranting control, will be more difficult and will require additional focused, coordinated research.

EPA is repeatedly faced with estimating effects in particularly sensitive or susceptible subpopulations. For example, the proposed new NAAQS for ozone and particulate matter are driven largely by effects thought to occur in exercising asthmatics and elderly people with preexisting lung and heart disease, respectively. It is seldom appropriate to conduct studies in which adverse effects are intentionally elicited in the most sensitive people. Until recently, there has been little emphasis on developing laboratory animal models of human heart-lung conditions thought to render people susceptible to pollutants. More emphasis needs to be given to developing and validating these research tools, and to coordinating such efforts across agencies and research disciplines.

EPA repeatedly faces uncertainties regarding the relevance of laboratory results to human health risks. As one of several examples, uncertainties about the relevance of the lung tumor response of rats to diesel exhaust to human lung cancer risk has impeded the development of unit risk estimates and delayed completion of EPA's diesel health assessment activity. Much of our understanding of the toxicity of inhaled airborne materials comes from studies using animals and cells to identify toxic agents, understand biological responses, and determine relationships between dose and effect. Such studies produce detailed information on the response of animals or cells, but there is too little emphasis on ensuring that the responses are similar to those that occur in humans. Development of information having little relevance to humans wastes resources. The validation of responses of animals and cells used to provide the scientific basis for national environmental policy needs to be given greater emphasis and coordination.

*Lack of Interagency and Interdisciplinary Coordination*

EPA does not have the mandate or resources to resolve all of these interrelated issues alone; the resources of other agencies and non-federal sponsors are critical. Current efforts are funded by EPA and other agencies, including CDC/NIOSH, FDA, DOD, DOE, NIH (NHLBI, NIEHS, NCI, NLAID, NIDA), and by health advocacy organizations, industry, labor, and private foundations. Existing coordinating activities within and among these groups do not provide sufficient integration and synergism. Progress will require a wide range of laboratory researchers, atmospheric scientists, epidemiologists, and clinical researchers. Focusing and resolving the issues will require interactions among researchers, health care professionals, and policy

makers in an iterative manner that fosters rapid information transfer and development of joint investigative strategies. There is no mechanism for national coordination of this interagency and interdisciplinary effort. As a result, some efforts are duplicated and some important issues are being inadequately addressed. The lack of a national center for focusing and facilitating this effort will increasingly create inefficiencies and impede progress.

There is also no national center for collecting and disseminating information on the health impacts of airborne environmental contaminants. Researchers, federal agencies, Congress, industry, and the public do not have a centralized source of information on ongoing research or recent findings.

There is no designated national interagency user facility with the specialized facilities, equipment, core support, and professional collaboration required for many types of investigations to study the complex airborne materials and health responses of concern. Investigators seek access to specialized facilities in EPA and other laboratories on an individual basis, but there is no coordinated national effort to facilitate the work of investigators in universities, federal laboratories, and industry by identifying and providing shared resources or standardized samples.

EPA and other agencies have intramural research centers or administrative structures that serve internal programmatic coordination needs, but these efforts rarely extend across agency lines. EPA and other agencies also fund extramural centers to study, or facilitate the study, of specific issues related to environmental respiratory health. EPA's Mickey Leland National Urban Air Toxics Research Center funds research and information transfer on the class of compounds designated in the Clean Air Act as "air toxics". The Leland Center serves a useful coordinating and research sponsorship function for air toxics, but does not have the facility or scientific resources to meet the broader needs described above. NIEHS center grants at universities provide core support and coordinating functions for thematic collections of projects on occupational and environmental health, but again, are not suited to meeting the broader needs.

The lack of a national coordinating center is notable, considering its small cost compared to the loss of productivity, the reduction in quality of life, and the loss of life caused by respiratory diseases and considering the importance now ascribed to the role of environmental factors in respiratory disease.

## THE NATIONAL ENVIRONMENTAL RESPIRATORY CENTER (NERC)

### *Location and Staffing*

The Lovelace Respiratory Research Institute (LRRI) proposes to establish a national center to meet the coordinating, user facility, and information needs described above. The physical location of the NERC will be the government-owned Inhalation Toxicology Research Institute facility on Kirtland AFB in Albuquerque, NM. This facility is already developed at taxpayer expense, having been established by the DOE to conduct research on long-term health risks from inhaled radioactive particles. Having fulfilled that mission, the facility was recently released from DOE laboratory status, and is now leased by LRRI to conduct respiratory health research for federal agencies, industry, and private sponsors. This 270,000 square foot, world-class facility contains $50 million in government-owned equipment, and has unmatched potential as a national user facility. The facility is well-equipped and staffed for intramural and collaborative research on airborne materials of all types, including reproducing pollutant atmospheres, conducting inhalation exposures of animals, determining the dosimetry of inhaled materials, and evaluating health effects ranging from subtle genetic and biochemical changes to clinical expression of disease.

The interests and expertise of LRRI are well-matched to the proposed activities of the Center. While managing the facility for DOE, LRRI contributed heavily to our present understanding of the respiratory health impacts of airborne pollutants. LRRI has conducted research for EPA, and has contributed heavily to the research cited as scientific basis for air quality regulation. The group is well-known for its efforts to understand airborne materials, link basic cellular and tissue responses to the development of disease, validate the human relevance of laboratory findings, and coordinate complex interdisciplinary studies. The LRRI group has conducted the world's most extensive research program on the effects of combined and sequential exposures to multiple toxicants. The group is well-known for its participation in advisory roles on EPA committees, and for coordinating multidisciplinary and inter-institutional efforts.

LRRI envisions a "virtual center" that will also encompass nearby institutions and an expanding group of collaborating investigators nationwide. Academic affiliation with the University of New Mexico, primarily through its Health Sciences Center

will extend research and training capabilities. Other local technology and collaborative resources include Sandia and Los Alamos National Laboratories, the National Center for Genome Resources, and the growing New Mexico biotechnology and clinical research communities. The NERC would interact closely with the Leland Center and with intramural research centers within EPA and other agencies.

*Principal Functions*

1. *Provide information resources*.—The Center will provide centralized information resources to researchers, EPA and other agencies, congress, industry, and the public. Literature searches, topical summaries, and answers to specific inquiries will be provided via the internet, electronic mail, and telephone. Emphasis will be given to providing access to relevant information nationwide through a single point of contact and assistance.

2. *Facilitate interagency and interinstitutional coordination*.—The Center will coordinate meetings, workshops, information transfer, and other activities aimed at integrating and prioritizing national research efforts and integrating results into useful summaries.

3. *Provide user facilities and facilitate access to research resources*.—The Center will disseminate information on the availability of specialized facilities, equipment, collaborative resources, and samples at the Center and elsewhere, and will facilitate the use of these resources by researchers in other institutions.

4. *Provide training*.—The Center will provide graduate training through the Toxicology, Biomedical, and Public Health programs at the University of New Mexico, and by hosting thesis research from other universities. Postdoctoral and sabbatical appointments will also be provided. Workshops and training courses will be conducted.

5. *Conduct and sponsor research*.—While it is envisioned that limited intramural research will be conducted with Center funding, intramural research will be principally funded by direct sponsorship of Agencies, industry, and the public through grants, contracts, and donations. Through the Center, extramural research aimed at critical information gaps not addressed by other sponsors will be funded.

FUNDING OF THE NATIONAL ENVIRONMENTAL RESPIRATORY CENTER

LRRI seeks authorization and subsequent appropriations through EPA for core funding, with additional sponsorship from other agencies for research aligned with individual agency mandates and strategic goals.

An initial appropriation of $2 million per year for 5 years, beginning in fiscal year 1998, will establish the Center and its core information, educational, and administrative functions. This amount will provide for critical computing and communication infrastructure, and limited facility renovations and equipment acquisitions. This amount will provide very little intramural or extramural research support; additional support for these purposes will be sought in coordination with the lead sponsoring agency as the Center is established. The goal is to develop research support principally through sponsored programs, and to use the core Center support principally to provide coordinating and information services and sponsor limited collaborative research.

---

## PREPARED STATEMENT OF THE AMERICAN CHEMICAL SOCIETY

### FISCAL YEAR 1998 BUDGET REQUEST FOR THE ENVIRONMENTAL PROTECTION AGENCY'S RESEARCH AND DEVELOPMENT

The American Chemical Society urges Congress to support the Administration's fiscal year 1998 request for the Environmental Protection Agency's Science and Technology Account ($614.3 million) and for Superfund Research ($39.8 million). The combined research funding from these EPA accounts would provide the Office of Research and Development (ORD) with the minimum resources needed to focus on the greatest risks to human health and the environment, and also to determine where the greatest contribution to reducing those risks can be made.

Since the American Chemical Society believes that ORD should be the highest priority in the Agency's budget, appropriate funding for ORD should be supported even at the expense of other EPA programs. Additional funding above the requested level could be well spent for research in support of decisionmaking and to avoid future environmental problems. If ORD is supported at the requested level (a $50 million increase to $554 million), then:

—The Science to Achieve Results programs receive almost $115 million for extramural grants and fellowships, which are awarded in peer-reviewed competitions

to conduct important environmentally related research, and for the Environmental Research Centers, which continue with level funding.

—In-house research continues to be strengthened through risk-based priority setting, peer review, and competitions for research projects.

—Work increases to reduce uncertainties in priority areas such as risks to children, endocrine disruptors, drinking water disinfectant byproducts and microbes, particulate matter, and urban toxics.

—Quality science is provided in support of the Safe Drinking Water Act Amendments and the Food Quality Act, passed by Congress last year.

—Research leads to a better understanding of stresses on the ecosystem and links to human health.

—New tools, technologies, and methods for pollution prevention are developed and introduced. The Advanced Measurement Initiative accelerates the application of enhanced measurement and monitoring tools. Testing continues to determine the performance of environmental technologies developed in the public and private sectors.

The Superfund Account also transfers funds for research purposes to the National Institute for Environmental Health Sciences and to the Agency for Toxic Substances and Disease Registry. These transfers should be supported at least at the fiscal year 1997 level of funding—$32.5 million and $64.0 million, respectively.

Your support for the Science and Technology Account request and the transfers for research from the Superfund Account will help to secure the quality science and research needed for sound decisionmaking and cost-effective regulations.

---

## PREPARED STATEMENT OF THE WATER ENVIRONMENT RESEARCH FOUNDATION

The Water Environment Research Foundation (WERF or Foundation) appreciates the opportunity to submit this statement and request for funding to the Subcommittee. WERF is a non-profit organization that funds and manages water quality and wastewater technology research. It is a unique public/private partnership between municipal utilities, corporations, academia, industry, and the federal government, together focusing resources on developing good science and technology for rational environmental decision making. The results of WERF's research allow regulators to better understand the costs and benefits of different regulatory approaches and to select the least-cost environmentally-beneficial approach.

WERF was created in response to the fact that federal funding for practical wastewater treatment technology and process research has declined from $15.6 million annually to virtually nothing today. Likewise, funding for municipal water pollution engineering research at the U.S. Environmental Protection Agency's (EPA's) Water Research laboratory in Cincinnati has fallen from $7.4 million in 1982 to almost zero today. Overall EPA water quality research funding has fallen from $67 million in 1980 to $26 million in 1996. Most of the available money is being used by EPA to support the development of regulations. This has resulted in the stagnation of advances in wastewater control technology and missed opportunities for better, more cost-efficient wastewater management, and has prevented our nation from achieving full benefit from the $65+ billion federal investment in wastewater infrastructure.

WERF provides an objective forum for peer reviewed water pollution control research to benefit the public and private sectors. Each year WERF surveys its Subscribers, as well as a broad cross section of the water quality profession, to develop consensus on the most pressing scientific and technological research needs. Once the statistical analysis of the survey is complete, WERF synthesizes the data into a comprehensive 5-Year Research and Development Plan. To the extent funding allows, research proposals are solicited on a priority basis. An independent advisory Research Council, made up of experts from municipal utilities, academics, engineering firms, regulatory agencies and equipment manufacturers, helps WERF select researchers, oversees studies, and provides periodic review and advice. WERF's customer orientation facilitates creation of a consensus-based research agenda addressing the needs of the people who govern and manage water quality protection facilities. WERF's close association with the users of research results, the Water Environment Federation, and EPA ensures the practical application of findings.

WERF's funding is overwhelmingly contributed by municipal agencies that represent more than half of the sewered population of the United States. WERF members also include equipment manufacturers, consulting firms and large industrial companies. These members are geographically diverse and represent most of the country, including 38 states. WERF has also received modest federal funding through the EPA budget (in fiscal years 1991, 1993, 1994, 1995, and 1996) and

through Congressional add-ons to EPA's budget (in fiscal years 1991, 1992, 1993, and 1996). The appropriations bill passed by the Congress for fiscal year 1997 included $1.5 million for WERF.

Since its inception in 1989, WERF has leveraged federal funding at a 6:1 ratio including in-kind contributions and co-funding from municipal utilities and the private sector. Only 12.6 percent of the Foundation's budget is used to pay for fund raising and administrative costs. The rest is spent on research. Since its inception in 1989, WERF has initiated over 100 research projects valued at some $30 million. Completed research has resulted in 25 published reports, with ten additional reports expected to be printed by the end of 1997. Reports due in 1997 include studies on optimizing wastewater treatment plant operations, biosolids stability criteria, guidance for performing use-attainability analyses and wet weather protocols (among others).

WERF respectfully requests that this Subcommittee include a $5 million appropriation for the Foundation in the fiscal year 1998 EPA budget so that the critical research agenda developed by the Foundation and its public and private partners (including EPA) can be carried out to the fullest extent possible. This amount would reflect federal matching of state and local government commitments to WERF. Simply stated, the technology of today is based upon the research of the past. The promise of the future is based on the research of today.

---

## PREPARED STATEMENT OF THE CALIFORNIA INDUSTRY AND GOVERNMENT COALITION ON PM–10/PM–2.5

Mr. Chairman and Members of the Subcommittee: On behalf of the California Industry and Government Coalition on PM–10/PM–2.5, we are pleased to submit this statement for the record in support of our fiscal year 1998 funding request of $1.0 million in the EPA budget for the California Regional PM–10/PM–2.5 Air Quality Study.

The San Joaquin Valley of California and surrounding regions exceed both state and federal clean air standards for small particulate matter, designated PM–10/PM–2.5. The 1990 federal Clean Air Act Amendments require these areas to attain federal PM–10/PM–2.5 standards by December 31, 2001, and the proposed PM–2.5 standards by mid 2003. Attainment of these standards requires effective and equitable distribution of pollution controls that cannot be determined without a major study of this issue.

According to EPA and the California Air Resources Board, existing research data show that air quality caused by the PM–10/PM–2.5 problem has the potential to threaten the health of more than 3 million people living in the region, reduce visibility, and impact negatively on the quality of life. Unless the causes, effects and problems associated with PM–10/PM–2.5 are better addressed and understood, many industries will suffer due to production and transportation problems, diminishing natural resources, and increasing costs of fighting a problem that begs for a soundly researched solution.

PM–10/PM–2.5 problems stem from a variety of industry and other sources, and they are a significant problem in the areas that are characteristic of much of California. Typical PM–10/PM–2.5 sources are dust stirred up by vehicles on unpaved roads, and dirt loosened and carried by wind during cultivation of agricultural land. Soil erosion through wind and other agents also leads to aggravation of PM–10/PM–2.5 air pollution problems. Chemical transformation of gaseous precursors are also a significant contributor to PM–2.5, as are combustion sources.

The importance of this study on PM–10/PM–2.5 is underscored by the need for more information on how the federal Clean Air Act Amendments standards can be met effectively by the business community, as well as by agencies of federal, state and local government whose activities contribute to the problem, and who are subject to the requirements of Title V of the Clean Air Act. There is a void in our current understanding of the amount and impact each source of PM–10/PM–2.5 actually contributes to the overall problem. Without a better understanding and more information—which this study would provide—industry and government will be unable to develop an effective attainment plain and control measures.

Our Coalition is working diligently to be a part of the effort to solve this major problem, but to do so, we need federal assistance to support research and efforts to deal effectively with what is essentially an unfunded federal mandate.

Numerous industries, in concert with the State of California and local governmental entities, are attempting to do our part, and we come to the appropriations process to request assistance in obtaining a fair federal share of financial support for this important research effort. In 1990, our Coalition joined forces to undertake

a study essential to the development of an effective attainment plan and effective control measures for the San Joaquin Valley of California. This unique cooperative partnership involving federal, state and local government, as well as private industry, has raised more than $14 million to date to fund research and planning for a comprehensive PM–10/PM–2.5 air quality study. Our cooperative effort on this issue continues, and our hope is that private industry and federal, state and local governments will be able to raise an additional $13 million over the next three years to fund this important study.

The following is a list of PM–10/PM–2.5 research projects which are in progress:

—*Planning*.—Development of protocols for emissions, field monitoring, data analysis and modeling.

—*Technical support studies*.—Suitability of data base; (1995 Integrated Monitoring Study); micrometeorological parameters; fog formation/dissipation; ammonia from soils.

—*Modeling*.—Demonstration of modeling system for application in SIP's.

—*Data analysis*.—Analysis of existing data to aid project planning.

—*Demonstration studies*.—Almond, fig, walnut, cotton, harvesting; unpaved agricultural roads; unpaved public roads; unpaved shoulders of paved roads; dairies, feedlots, poultry, dry cereal grain.

For fiscal year 1998, our Coalition is seeking $1.0 million in federal funding through the U.S. Environmental Protection Agency to support continuation of this vital study in California. We respectfully request that the Appropriations Subcommittee on VA, HUD and Independent Agencies provided this additional amount in the EPA appropriation for fiscal year 1998, and that report language be included directing the full amount for California.

The California Regional PM–10/PM–2.5 Air Quality Study will not only provide this vital information for a region identified as having particularly acute PM–10/PM–2.5 problems, it will also serve as a model for other regions of the country that are experiencing similar problems. The results of this study will provide improved methods and tools for air quality monitoring, emission estimations, and effective control strategies nationwide. Consequently, the beneficial results of this study will contribute to national policy concerns as well.

The Coalition appreciates the Subcommittee's consideration of this request for a fiscal year 1998 appropriation of $1.0 million for EPA to support the California Regional PM–10/PM–2.5 Air Quality Study.

---

## PREPARED STATEMENT OF THE ASSOCIATION OF STATE DRINKING WATER ADMINISTRATORS

### INTRODUCTION

The Association of State Drinking Water Administrators (ASDWA) is pleased to provide written testimony to the VA, HUD and Independent Agencies Subcommittee on Appropriations for fiscal year 1998. ASDWA represents the drinking water programs in each of the fifty states and six territories in their efforts to ensure the provision of safe, potable drinking water to over 250 million consumers nationwide. ASDWA's primary mission is the protection of public health through the effective management of state drinking water programs that implement the Safe Drinking Water Act (SDWA).

### REQUEST OVERVIEW

Adequate funding for state Public Water Supply Supervision (PWSS) programs, the Drinking Water State Revolving Fund (DWSRF), and drinking water health effects research are three areas of significant importance to ASDWA. ASDWA also supports adequate funding for state source water protection programs and the Environmental Protection Agency's (EPA) Drinking Water Program to effectively address new provisions in the SDWA.

The SDWA, if fully implemented, contains provisions that will significantly improve the provision of safe drinking water in this country. In order to ensure this success, ASDWA respectfully requests that the following funding be appropriated for the indicated purpose:

—State Public Water Supply Supervision (PWSS) Programs.—$100 million (as authorized)

—Drinking Water State Revolving Fund.—$1 billion (as authorized)

—Drinking Water Health Effects Research.—$35.9 million

—EPA/AWWA Research Foundation Drinking Water Research Partnership.—$5 million (to be matched by AWWARF and water suppliers)

—Arsenic Health Effects Research Partnership.—$1 million (to be matched by AWWARF)
—EPA Drinking Water Program.—$105.3 million
—State Source Water Protection Programs.—$10 million

STATE PUBLIC WATER SUPPLY SUPERVISION (PWSS) PROGRAMS

With passage of the SDWA, states must implement myriad new requirements—many with very short timeframes for program development and implementation. The new law requires states to develop drinking water state revolving loan fund programs; delineate and assess all the source waters in the state within a two-year timeframe; develop capacity strategies to ensure that water systems have adequate financial, managerial, and technical capabilities; provide drinking water quality information annually to the public in a readily available and accessible format; and expand operator certification programs, among other provisions. This is in addition to their current responsibilities which have not been reduced. While states support these new provisions to improve drinking water quality in this country, they also recognize that successful implementation will require significant new resources.

ASDWA has testified that state PWSS programs have been significantly underfunded in the past with states already contributing approximately 65 percent of the funds necessary to implement this Federal law. The President's budget request for fiscal year 1998 does not raise the PWSS funding level for state programs from the fiscal year 1997 funding level of $90 million even though the SDWA authorizes states to receive $100 million for fiscal year 1998. The only increase provided is $3.78 million for Indian tribes.

Now that the SDWA Amendments of 1996 have been enacted, it is critical that states have the resources necessary to develop and implement the new provisions of the Act as well as resources to support the ongoing activities of state and Federal drinking water programs to protect public health. States are concerned that without the infusion of additional resources, they will be unable to successfully meet many of these new requirements. States must begin work today to ensure adequate capability to meet the deadlines for many of these provisions.

The SDWA authorizes $100 million per year through fiscal year 2003 to support the PWSS Program. The authorization level recognizes the increased responsibilities placed on state drinking water programs under the Act and reflects Congressional awareness that these programs must be undertaken in addition to current state responsibilities. These existing state responsibilities include requirements to continue regulation of 84 contaminants, the conduct of sanitary surveys to ensure water system integrity, certification of laboratories to analyze compliance monitoring samples, certification and training of water system operators, review of water system plans and specifications for infrastructure improvements, enhancement and expansion of data management systems, the conduct of disease surveillance investigations, and response to emergency situations.

ASDWA respectfully requests that the Subcommittee appropriate the $100 million as authorized to support the PWSS Program for fiscal year 1998.

DRINKING WATER STATE REVOLVING FUND (DWSRF)

The new SDWA authorizes $1 billion annually for fiscal year 1995 through fiscal year 2003 to establish and support drinking water state revolving funds (DWSRF). The primary purpose of the DWSRF is to facilitate water system compliance with national primary drinking water regulations through the provisions of loans to water systems to improve drinking water infrastructure.

In January 1997, EPA released its Drinking Water Infrastructure Needs Survey Report to Congress that identified a total need of $138.4 billion for community water systems to comply with the requirements of the SDWA over the next 20 years—$34.4 billion of which is needed now to address current SDWA compliance and SDWA-related needs. Of the $34.4 billion current need, $10.2 billion is needed to meet treatment requirements for microbiological contaminants such as total and fecal coliform and Giardia that can lead to gastrointestinal illness and in extreme cases, death; $1.9 billion is needed to address compliance requirements for other acute and chronic health risk contaminants including nitrate; and $22.3 billion is needed for replacement of distribution piping that poses a threat of bacterial contamination to community drinking water systems.

The remaining $104 billion will be needed over the next 17 years to support ongoing installation and rehabilitation of drinking water transmission and distribution systems; to meet treatment requirements that ensure public health protection against both acute and chronic contaminants; to provide adequate storage; and to address rehabilitation and development of drinking water sources.

According to the EPA report, the $138.4 billion in needs should be considered conservative since many water systems were unable to provide documentation for all of their needs for the 20-year period and some systems were not able to provide adequate documentation for all of their identified needs. In addition, the survey examined only the needs of community water systems and did not include the needs for nonprofit non-community water systems.

In addition, a portion of the DWSRF may be used to support other non-infrastructure related activities such as health effects research, assistance for disadvantaged communities, and technical assistance and training. In order to maximize the use of the funds for both infrastructure and non-infrastructure related activities, it is imperative that the full authorization of $1 billion be appropriated rather than the President's request of $725 million.

ASDWA respectfully requests that the Subcommittee appropriate the full $1 billion in drinking water state revolving loan funds as authorized for fiscal year 1998.

DRINKING WATER HEALTH EFFECTS RESEARCH

The use of sound science as the foundation of the new SDWA standard-setting process will require extensive drinking water research, particularly in the area of health effects. Research is needed for microbial and disinfection by-products, arsenic, radon, sulfate, endocrine disrupters, and other contaminants that will require additional occurrence, treatment, and health effects information. Much of this information will be needed in order for EPA to determine whether a particular contaminant should be regulated in the future. EPA must also consider the implications of health effects on sensitive subpopulations such as children, the elderly, pregnant women, and persons with a history of serious illness. ASDWA supports the fiscal year 1998 budget request of $35.9 million for drinking water research to ensure that future standards are based on sound science and credible health effects data.

ASDWA also strongly supports the continuation of the EPA/AWWA Research Foundation Drinking Water Research Partnership and the Arsenic Health Effects Research Partnership funded at $5 million and $1 million respectively. Such public/private partnerships represent an effective mechanism to leverage additional dollars and to ensure that the appropriate focus remains on priority drinking water research needs. As in the past, these resources will be matched dollar-for-dollar by the AWWA Research Foundation.

ASDWA respectfully requests that the Subcommittee appropriate $35.9 million for drinking water health effects research; $5 million for the EPA/AWWA Research Foundation Drinking Water Research Partnership; and $1 million for the Arsenic Health Effects Research Partnership.

EPA DRINKING WATER PROGRAM

With the passage of the 1996 SDWA, the EPA Drinking Water Program assumed many new responsibilities including development of a new regulatory process requiring additional science and risk assessment in order to promulgate regulations, development of a national contaminant occurrence database, identification of new treatment technologies for small systems, administration of the new DWSRF, development of regulations and guidelines for consumer confidence reports, and development of source water protection guidance.

To address many of these issues, EPA has actively sought involvement from interested stakeholder groups through the auspices of the National Drinking Water Advisory Council. While this commendable outreach effort has significantly added to the Agency's workload, it should result in the development of guidance, policies, and regulations that are supported by a broad spectrum of interested parties including states, water utilities, and the general public.

The President's budget request of $105.3 million for the Office of Water's Drinking Water Program will allow the Agency to publish guidance on water system capacity, develop national guidelines on operator certification, oversee funding to water systems through states to ensure improvements of drinking water infrastructure, and continue to develop regulations related to microbial and disinfection by-products and the information collection rule.

ASDWA respectfully requests that the Subcommittee appropriate $105.3 million for the EPA Office of Water's Drinking Water Program to implement the new provisions of the SDWA.

STATE SOURCE WATER PROTECTION PROGRAMS

The 1986 Amendments to the SDWA, required states to develop programs to protect wellhead areas from contaminants that may have any adverse effect on public health. Although a total of $145 million was authorized as grants to states to assist

in the development of these programs, no funds were ever appropriated. In spite of this, almost 45 states managed to develop some form of wellhead protection program. Many of these programs, however, have been significantly underfunded and will need additional resources to meet the numerous new requirements under the SDWA Amendments of 1996.

In addition, the new SDWA significantly expands on requirements to protect sources of drinking water through the development of state source water protection programs. Both surface water and ground water are included as sources of drinking water that must be delineated and assessed in each state. Although the statute is clear about the requirement to identify sources of contamination, it is relatively silent on the next step of implementing programs to prevent source water contamination. Unfortunately, the limited funding and short timeframe for states to develop and conduct these assessments and delineations will likely prevent many states from actively implementing source protection programs.

The SDWA of 1996 provides various funding authorizations for states to ensure the coordinated and comprehensive protection of source waters within their state. The appropriation of a portion of these funds could be used effectively by the states to enhance current ground water protection programs and to move into source water protection activities.

ASDWA respectfully requests that the Subcommittee appropriate $10 million for states to ensure coordination and comprehensive protection of source waters.

The states look forward to the opportunities and challenges provided by the new SDWA. They welcome the opportunity to focus resources on those issues of greatest concern to their citizens, to improve partnerships with local governments, and to provide drinking water systems with funding to meet critical infrastructure needs. A strong drinking water program supported by the Federal government, states, water utilities, and the public will ensure that the quality of drinking water in this country continues to improve and that the public can be assured that a glass of water is safe to drink no matter where they travel or live. Achieving these goals, however, will require a significant financial commitment from all parties. This testimony acknowledges the major contributions that have been made by all parties and asks the Subcommittee to provide adequate funding at the Federal level to ensure the successful implementation of the SDWA.

ASDWA appreciates the opportunity to present its funding requests for the Subcommittee's consideration.

---

## PREPARED STATEMENT OF BILLY FRANK, JR., CHAIRMAN, NORTHWEST INDIAN FISHERIES COMMISSION

Mr. Chairman, and honorable Members of the Committee, I am Billy Frank, Jr., Chairman of the Northwest Indian Fisheries Commission (NWIFC), and on behalf of the tribes in Washington State, I would like to thank you for the opportunity to offer written testimony concerning the Environmental Protection Agency's (EPA) fiscal year 1998 appropriations.

We are specifically requesting that programmatic funding levels to the Northwest tribes be included in EPA's budget under Section 104(b)(3) of the Clean Water Act. The purpose of our request is to continue implementation of the model Coordinated Tribal Water Quality Program for twenty-six participating tribes and tribal organizations in Washington State for fiscal year 1998. Strong congressional support for and implementation of this tribal initiative began in 1990 and is present today. However, we are losing ground in the implementation of this effort. Erosion of base level funding is jeopardizing the federal government's long-term investment in this efficient and effective tribal water quality protection program. It is essential that it continues into the future.

We respectfully request Congress to either:

(1) *Appropriate $3.10 million into the EPA's funding base.*—Under Section 104(b)(3) of the Clean Water Act, Section 319 of the Clean Water Act, or within EPA's Assessment and Watershed Program, appropriate $3.10 million into EPA's funding base for twenty-six (26) participating tribes and tribal organizations in Washington State to fully implement the model cooperative tribal water resource program for environmental protection, or

(2) *Direct the Agency to utilize existing $3.10 million in agency funding.*—From existing Section 104(b)(3) of the Clean Water Act, Section 319 of the Clean Water Act, or EPA's Assessment and Watershed Program funds, provide $3.10 million for twenty-six (26) tribes and tribal organizations in Washington State to continue implementation of the model cooperative tribal water resource program for environmental protection.

Justification for this funding request is based on:

—legal rights and obligations for the federal government to protect the treaty-reserved rights of the tribes,

—the United State's trust responsibility to protect the health and environment of the tribes on a government-to-government basis,

—cost effectiveness by utilizing a cooperative intergovernmental strategy to accomplish national clean water goals, and

—minimize conflict between multiple jurisdictions who manage water quality.

We ask that you put monies in the above-mentioned mechanisms. By placing these funds in the EPA General Assistance Program (GAP), which are dedicated to planning, it limits the tribe's ability to proceed with implementation activities.

To assist the Committee members, I would like to summarize background relevant to our request.

BACKGROUND

The NWIFC request is on behalf of our nineteen (19) member treaty fishing tribes and the Hoh, Chehalis and Shoalwater Bay Tribes in western Washington, and the Yakama Indian Nation, Colville Confederated, Spokane, and Kalispel Tribes in eastern Washington. The funding request is to continue implementing the model Coordinated Tribal Water Quality Program that began in 1990.

Washington State has been blessed with bountiful rivers and streams. Five species of Pacific salmon and three species of anadromous trout utilize Washington State's streams during the fresh water stages of their life cycles. Historically, there were ample supplies of fish for ceremonial, subsistence, commercial and recreation purposes. Old growth conifer removal, riparian zone impacts, farming activities, and channelization of the streams has reduced the productive capacity of these streams to extremely low levels. Currently, there are concerns that hundreds of salmon stocks are at significantly low levels and many warrant a threatened or endangered listing status under the Endangered Species Act.

In 1979, the United States Supreme Court re-affirmed the treaty tribes' right to harvest half of the harvestable number of anadromous fish passing through tribal usual and accustomed areas. In 1980, the federal district court held that the United States and the State of Washington must not permit degradation of fish habitat which would diminish the treaty harvest right, including point and non-point pollution sources. The federal courts have recognized that protection of water quality and other attributes of fish habitat are necessary to secure the Constitutionally protected rights of the tribes to harvest fish.

The sovereign authorities of the Tribes and the legal principles enunciated in *United States* v. *Washington* and other federal court decisions support justification upon which the tribes are involved with on and off-reservation environmental issues. As a result of federal court decisions, the State of Washington has recognized the tribes as "co-managers" of the fish resource and water quality in our state. As co-managers in Washington, the tribes must have the resources to adequately participate in environmental protection programs.

The Environmental Protection Agency's (EPA) Indian policy (1984) of working with federally recognized tribes on a government-to-government basis concerns more than 375 Indian tribes in the lower 48 states controlling over 52 million acres of land base. In our state, tribal reservations make up approximately six percent (6 percent) of the State of Washington. Our tribes also have retained treaty rights not ceded to the United States. These usual and accustomed fishing grounds include most of the State of Washington. The combined area of Indian reservations nationally is larger than all of New England, yet EPA now devotes only a tiny fraction of its personnel and funds to environmental protection for the tribes.

This is clearly a discriminatory prioritization of federal funds. On a national level, tribal reservations represent three percent (3 percent) of the land base of this nation. Although the EPA has worked closely with the states to implement adequate environmental programs, until recently, little has been done to accomplish the same for the tribal governments. Indian tribes are over two decades behind the states both in resources received from the EPA and in technical assistance provided by the EPA in developing tribal water program offices. A "front end" investment will promote cooperation and increased tribal involvement in environmental protection as has been the case between the EPA and state governments for the past twenty years. Already, the Coordinated Tribal Water Quality Program is enabling cooperative interjurisdictional partnerships and has been matched by an additional $2 million in federal, state and tribal funds.

We want it to be recognized that we do support and appreciate the successful efforts that have been made to improve EPA Indian Programs and tribal funding. And

further, we support the President's fiscal year 1998 budget request of $38.6 million for the General Assistance Program (GAP), and the $9.8 million increase for tribal water quality management programs through Section 106 of the Clean Water Act. We see these activities as important and positive steps, but believe that we have a long way yet to go in meeting the existing environmental protection needs in Indian Country.

Additionally, since the GAP funding is legislated for program development, there must be complimentary sources of implementation funding for these tribal programs. Tribes in Washington State are further along in the development of their programs than EPA's Indian funding policy development. While EPA is accomplishing important strides in improving their Indian Programs, tribes with previously established programs are experiencing a break in support while EPA plays catch-up with tribes across the nation. Our request for Section 104(b)(3) funding is intended for stabilizing existing program implementation activities. Another possibility may be within Section 319 of the Clean Water Act. However, because of legislated formula, the $100 million available nationally translates into only $300,000 (one-third of percent restriction) for tribal programs. This means that 535 tribal governments (including Alaska Native Villages) must compete for a very small pool of tribal nonpoint source pollution management program funds. Clearly, a means must be found to support the long term funding of tribal programs that seek to protect tribal treaty rights such as ours, or the efforts being made by EPA will not be successful.

TRIBAL/STATE ROLES

Beginning in 1990, the State of Washington has supported tribal involvement in environmental protection both off and on-reservation. The State is committed to work with the tribes on a government-to-government basis as "co-managers" of the water resources in the implementation of this program (see attached letter). The federally recognized Indian tribes in Washington have developed a process with state, local government officials, and representatives of agriculture, industry, and environmental communities to address water resource issues on a government-to-government basis. The results of these discussions have outlined a cooperative process between the tribes, state agencies and programs, and local units of governments in areas of environmental protection. This process was highlighted as a case study example to countries around the world at the 1992 United Nations Conference on Environment and Economic Development in South America.

The tribes must be part of the solutions to prevent and control water pollution in Washington State. The tribes must participate in these activities to protect their governmental interests and treaty fishing rights. Neither we, nor the resources, can afford to lose programs integral to our intergovernmental cooperative watershed program. The Cooperative Tribal Water Quality Program is one such means to protect our nation's environmental heritage.

CONCLUSION

For the past six years, Congress has recognized the importance of the Coordinated Tribal Water Quality Program and supported funding for the tribes to participate in environmental programs which helps EPA realize its long-range objective of including tribal governments as partners in decision-making and program management on reservation lands. Adequate and stable funding is necessary to maintain this coordinated tribal environmental program.

We appreciate the difficulty Congress is facing in making decisions for this next fiscal year. In the case of the EPA, Congress and the Administration will probably direct their resources to address those areas of highest risk to human health and the environment. Therefore, we want to reiterate that tribal reservations and protection of their treaty resources have not been adequately addressed for the past twenty (20) years and represents the highest of risk to this nation. To do otherwise, would represent environmental genocide to Native Americans.

Sufficient and permanent funding is necessary to continue the tribal cooperative program. Certainty of funding is necessary for the tribes to hire permanent and professional staff to implement this program. Without an ongoing investment by Congress, much of the good that has been accomplished to date will be lost.

Please consider our request for $3.10 million for the Washington State Tribal Water Quality Program. Once again, thank you for the opportunity to provide testimony. Thank you also for your assistance in helping to develop a national model program of how tribal governments can address environmental protection in a cooperative watershed approach with state and local governments.

Thanks to this Committee, we are making significant progress. This initiative is being supported at all levels of our governments. We hope you and the Committee will continue to look favorably on our request.

LETTER FROM GARY LOCKE

STATE OF WASHINGTON,
OFFICE OF THE GOVERNOR,
*Olympia, WA, April 14, 1997.*

Hon. CHRISTOPHER S. BOND,
*Chairman, Senate VA, HUD and Independent Agencies Appropriations Subcommittee, Washington, DC.*

DEAR CHAIRMAN BOND: The purpose of this letter is to express my support of the twenty-six federally recognized tribes in Washington State in their efforts to continue implementation of the Coordinated Tribal Water Quality Program. This program is a national model that demonstrates how tribes can address their water quality protection needs in coordination with local, state and federal governments.

Tribes are an integral part of protecting and improving water quality in Washington State. The Coordinated Tribal Water Quality Program helps our governments work together to address both on-reservation and off-reservation water quality issues. This cooperative, watershed based program replaces interjurisdictional barriers with government-to-government partnerships.

I urge your continued support of this important and effective program.

Sincerely,

GARY LOCKE,
*Governor.*

---

## FEDERAL EMERGENCY MANAGEMENT AGENCY

PREPARED STATEMENT OF BRAD IAROSSI, P.E., LEGISLATIVE OFFICER, ASSOCIATION OF STATE DAM SAFETY OFFICIALS

The Association of State Dam Safety Officials (ASDSO) is pleased to have the opportunity to comment on the Clinton Administration's fiscal year 1998 Budget Request of $432,000 for the dam safety program in the Federal Emergency Management Agency's (FEMA) budget.

ASDSO is a national organization of more than 1,500 state, federal and local dam safety officials and private sector individuals dedicated to improving dam safety through research, education, and communication. Our goal is to save lives, prevent damage to property and maintain the benefits of dams by preventing failures.

I would like to first begin by commending Chairman Bond for his outstanding leadership on including the National Dam Safety program into the Water Resources Development Act (WRDA) of 1996. (The Dam Safety Program was formerly a Presidential Directive). This legislation recognized the need for a federal role in dam safety and established a cost-effective means to improve state dam safety programs. We appreciate your leadership and look forward to your continued support.

While much progress has been made to advance dam safety in this country, the fundamental goals of this program have yet to be completely realized. Dam safety is an ongoing effort and much more needs to be accomplished.

The fiscal 1998 budget request of $432,000 for the dam safety program in FEMA's budget falls short of the funds needed to successfully implement the program. This request is an alarming step backwards for public safety at a time when natural disasters, including the recent floods in Ohio, Kentucky, and Indiana, continue to ravage our country. Situations like these call for increased federal attention and funding to dam safety, not less.

ASDSO respectfully opposes the Administration's fiscal year 1998 proposal for the dam safety program and requests the Subcommittee's support for full funding of the $2.9 million appropriated in fiscal year 1998 in order for FEMA to implement the program. In doing so, we suggest that the $2.9 million be appropriated to conduct the following activities:

—$1 million for incentive grants to states to upgrade their dam safety programs;
—$500,000 for training programs for state dam safety inspectors;
—$1 million for a federal research program developed to improve techniques and equipment for rapid and effective dam inspections and updated devices for monitoring dams for safety purposes; and
—$400,000 for FEMA to administer the program.

This modest, yet vital funding would help to reduce the risks to life and property due to dam failures by providing states with resources to improve their dam safety programs. Compared to the $54.3 million spent on repair costs in 1994 (most recent available statistics), investment in prevention will reduce the loss of life, property damage and much larger expenditures after dams fail.

SAFETY AND REGULATION

Regulation is essential for the reduction of the hazards involved with dams. That responsibility rests almost entirely with the states. States regulate about 95 percent of the 75,187 dams on the National Inventory of Dams. While the majority of states have been working to improve their programs in the last 20 years, most are still struggling with minimal budgets and staff. A handful of states do not even have adequate programs in place to regulate the safety of their dams. The 1995–96 National Inventory of Dams revealed that a majority of high or significant hazard dams do not have Emergency Action Plans in place which would mean the difference between timely downstream evacuation and disaster.

Safety is essential to all regulated dams, but most importantly to the approximately 9,500 dams determined by regulators to be high-hazard (category I), meaning they could threaten human life and cause significant downstream damage should they fail. Even more significant are the 1,800 dams which are considered to be unsafe. Many of these are also in high-hazard locations. This means they have deficiencies which leave them more susceptible to failure. Thirty-five percent of the high-hazard dams have a last inspection date prior to 1990. A recent survey conducted by the Association of State Dam Safety Officials (ASDSO) showed thousands of other dams are in need of rehabilitation to keep them from becoming unsafe. These repair projects are put on hold because of a lack of funding

Every member of this subcommittee has high-hazard dams impounding water within their state. Nearly every member of the subcommittee has at least one unsafe, high-hazard dam operating in their home state. California, Pennsylvania, Missouri, Texas, and North Carolina have over 500 high hazard dams each in their states. North Carolina has the most high hazard dams. In Ohio there are 450 unsafe structures. In New York there are 372 high-hazard dams, and of these 57 are unsafe. Missouri has 658 high-hazard dams with 87 classified as unsafe. Tennessee has 136 high-hazard dams of which 28 are unsafe. In nearby Maryland there are 55 high-hazard dams with six being unsafe.

A chart of states' dam inventory data is included at the end of this written testimony.

NEED FOR FULL FUNDING OF FEMA'S DAM SAFETY PROGRAM

Over the past year, flooding across the country resulted in scores of deaths and millions of dollars in property damage. Statistics have shown that downstream damage and dam repairs caused by recent failures in only eight states totaled $54.3 million. In California, flood-waters that descended from the Sierra Nevada mountains in January caused dams to overflow and levees to brake in 32 places. Nine people were killed, and more than 120,000 people were evacuated. Property damage exceeded $1.7 billion. This does not include emergency relief costs to states and to the federal government.

Lack of proper maintenance and resources put the nation at risk of future disasters. The National Oceanic and Atmospheric Administration predicted March 17 that heavy snows in the High Plains and Rocky Mountains will lead to the worst spring flooding in a decade.

Putting the weather aside, statistics show that 25 percent of all dams in this nation are over 50 years old, and by the year 2020, that number is expected to jump to 85 percent. We must plan now to make certain that these structures will be safe and that they will continue to provide the benefits for which they were built.

It is therefore incumbent upon the federal government to recognize the need for a strong National Dam Safety Program and to fund it to the fullest extent possible.

CONCLUSION

Dams are a critical part of our national infrastructure. They provide benefits upon which our communities and industries depend. However, along with the benefits is the need to maintain safe and reliable structures.

It is unfortunate that, historically, most state dam safety programs do not receive additional funding or personnel until loss of life occurs as a result of dam failure. The total economic and social damage of one dam failure, not to mention the incalculable loss of life, easily exceeds the cost of the dam safety program. Full funding of the National Dam Safety Program would provide the needed tools to help improve

the national infrastructure and would encourage states to advance their safety programs, thereby enabling them to prepare for disasters before they strike.

We strongly urge this subcommittee to recognize the benefits of this modest investment in public safety by providing full funding of the $2.9 million in order for FEMA to implement the National Dam Safety Program. ASDSO looks forward to working with the subcommittee and its staff on this critical public safety issue and would be happy to respond to any questions.

1998 STATE DAM INVENTORY DATA

| State | Total national inventory [1] | Total State regulated [2] | State high-hazard [3] | State regulated known deficient [4] | Government ownership [5] |
|---|---|---|---|---|---|
| Alabama | 1,570 | 1,704 | 184 | 150 | 25 |
| Alaska | 99 | 87 | 18 | ..... | 55 |
| Arizona | 274 | 212 | 73 | 23 | 92 |
| Arkansas | 1,184 | 1,215 | 154 | 44 | 364 |
| California | 1.512 | 1,220 | 272 | ..... | 536 |
| Colorado | 1,648 | 1,809 | 275 | 189 | 486 |
| Connecticut | 707 | 2,679 | 238 | NR | 251 |
| Delaware | 73 | 88 | 8 | NR | 76 |
| Florida | 572 | NR | NR | NR | 15 |
| Georgia | 4,951 | 4,704 | 359 | 30 | 633 |
| Hawaii | 129 | 129 | 72 | ..... | 27 |
| Idaho | 343 | 431 | 100 | 13 | 80 |
| Illinois | 1,212 | 1,212 | 155 | NR | 355 |
| Indiana | 663 | 1,212 | 241 | NR | 311 |
| Iowa | 2,465 | 2 514 | 66 | 2 | 1,437 |
| Kansas | 6,057 | 13,113 | 189 | 30 | 1,363 |
| Kentucky | 941 | 915 | 144 | 3 | 374 |
| Louisiana | 381 | 311 | 12 | ..... | 90 |
| Maine | 498 | 462 | 47 | 278 | 19 |
| Maryland | 273 | 358 | 55 | 6 | 162 |
| Massachusetts | 1,528 | 2,921 | 324 | 28 | 686 |
| Michigan | 910 | 1,049 | 79 | 21 | 381 |
| Minnesota | 930 | 850 | 40 | NR | 530 |
| Mississippi | 3,191 | 3,328 | 238 | 10 | 121 |
| Missouri | 3,452 | 3,832 | 658 | 87 | 208 |
| Montana | 3,187 | 3,518 | 152 | 6 | 829 |
| Nebraska | 2,035 | 2,035 | 88 | ..... | 977 |
| Nevada | 463 | 571 | 107 | 13 | 130 |
| New Hampshire | 613 | 3,106 | 87 | ..... | 583 |
| New Jersey | 806 | 1,580 | 183 | 32 | 350 |
| New Mexico | 501 | 522 | 156 | 3 | 156 |
| New York | 1,633 | 5,645 | 372 | 57 | 676 |
| North Carolina | 2,699 | 4,369 | 839 | 40 | 199 |
| North Dakota | 481 | 524 | 26 | 5 | 280 |
| Ohio | 1,654 | 2,673 | 480 | 450 | 454 |
| Oklahoma | 4,550 | 4,388 | 165 | 12 | 87 |
| Oregon | 827 | 3,705 | 122 | ..... | 186 |
| Pennsylvania | 1,291 | 2,842 | 728 | 9 | 502 |
| Puerto Rico | 36 | 36 | 33 | ..... | 31 |
| Rhode Island | 186 | 506 | 17 | ..... | 80 |
| South Carolina | 2,256 | 2,237 | 143 | 5 | 283 |
| South Dakota | 2,392 | 2,252 | 48 | 4 | 140 |
| Tennessee | 1,044 | 593 | 136 | 28 | 382 |
| Texas | 6,894 | 7,190 | 802 | 116 | 2,642 |
| Utah | 636 | 1,819 | 187 | NR | 150 |
| Vermont | 334 | 1,034 | 49 | ..... | 134 |
| Virginia | 1,496 | 467 | 101 | 48 | 325 |
| Washington | 653 | 865 | 94 | 13 | 238 |

1998 STATE DAM INVENTORY DATA—Continued

| State | Total national inventory [1] | Total State regulated [2] | State high-hazard [3] | State regulated known deficient [4] | Government ownership [5] |
|---|---|---|---|---|---|
| West Virginia | 537 | 346 | 242 | 49 | 233 |
| Wisconsin | 1,165 | 983 | 136 | NR | 722 |
| Wyoming | 1,230 | 1,368 | 83 | 5 | 163 |
| Total | 75,401 | 100,467 | 9,496 | 1,804 | 19,607 |

[1] Includes Federal and non-Federal dams over 25 feet in height or 50 acre-feet in volume; or anything above 6 feet in height with downstream damage potential should it fall.
[2] Includes all dams under State regulatory control.
[3] High-hazard by State definition derived from State inventory in column 2.
[4] Dams with identified deficiencies by State definition (varies State to State) derived from State inventory in column 2.
[5] Derived from national inventory in column 1 = Not reporting. Some States do not keep data on ''high-hazard'' and/or ''unsafe'' categories.

Note: Inventory sizes vary from State-to-State because of number of dams, but also because State laws vary on which dams are included under their jurisdiction.

---

PREPARED STATEMENT OF JOHN N. PEABODY, JR., PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES LOCAL 1983

Good morning Mr. Chairman, members of the subcommittee. I appreciate this opportunity to provide information to the subcommittee as the elected representative of the bargaining unit employees who work at the National Emergency Training Center (NETC) in Emmitsburg, Maryland.

As you may be aware, the training center is a multi-purpose facility housing several elements of the Federal Emergency Management Agency (FEMA) including the United States Fire Administration (USFA) and most of FEMA's training division. NETC is the home of the National Fire Academy (part of the USFA) and the Emergency Management Institute (part of the training division) who together provide most of FEMA's training and education for Federal, State and local emergency managers, the fire service, and allied professions.

Also located at NETC are the studios of the Emergency Education Network which broadcasts fire and emergency programs nationwide. In addition, NETC has the world's finest library for fire and emergency information. This facility is a national asset and is the envy of the rest of the world's fire and emergency services. However, budget cuts and staffing cuts are constraining and even crippling many of the important services we provide.

FEMA's Director, James Lee Witt, has clearly given the top priority to promoting hazard mitigation and to more efficient and effective response and recovery operations. He has been remarkably successful, and we appreciate and applaud his efforts. It is a pleasure to work for an agency that is respected for helping to solve problems instead of causing problems. Unfortunately, the reinvention of FEMA has had significant costs, and the staff at NETC have had to "pay" in many ways to the detriment of our programs and the organizations and people we serve.

The staff understand that Mr. Witt has been placed in a very difficult situation. As FEMA began to be more successful and effective, there were rising expectations for each new disaster. And the disasters have increased in both number and complexity (75 in fiscal year 1996—a record number!) So, what in 1993 seemed like a requirement for running a hundred yard dash 30 times a year has turned into an endless marathon across the country at sprint speed. At the same time, the folks with the green eyeshades at the Office of Management and Budget have been telling FEMA to do more and more with less and less.

The director has been faced with the dilemma of meeting an avalanche of new requirements with very limited resources. So, he has had to take resources from some missions and functions and apply them to the highest priority needs. This approach was reasonable in the short run, but in the long run it has had a significant impact on NETC.

We do not believe that it is the intent of Congress to force the Director to continually re-cut an ever-shrinking pie. We support FEMA and the Director's initiatives, but we think we are important too, and it is our hope that Congress will provide the necessary positions and funds for us to do our job.

Simply stated, our job is to help develop and maintain the highest possible level of professional skills and knowledge for the Nation's fire services, emergency managers, and allied professions. Just as the Armed Forces must constantly train and exercise to maintain readiness and improve their skills, the Nation's first responders must do the same. Quality training and education do not come cheap, but ignorance is much more expensive.

The remainder of this statement outlines employee concerns and our recommendations for corrective actions in two areas—the Emergency Management Institute and the United States Fire Administration.

The Emergency Management Institute (EMI) is operated by the training division of FEMA's preparedness, training, and exercises directorate. EMI has a staff of 42. EMI has been fortunate compared to USFA in recent years. EMI has enjoyed good management and a relatively stable budget. The staff have been very productive, and morale has been good. Feedback from across the country (and even from other countries) has been very, very positive. EMI training and related activities is helping Federal, State, and local agencies, private sector organizations, and individuals to reduce damage potential and respond effectively and efficiently to emergencies.

The problem facing EMI is its success has created an enormous growth in interest/demand for training, and EMI is having to decide who can be served and when. It is very difficult to tell a community that they will have to wait for a year or more because we do not have the travel money or the staff time to give them what they want and certainly need. This situation has suddenly gotten worse because EMI has recently lost 2 valued employees, had its travel budget cut by 36 percent, and had course development funds cut by $700,000.

The EMI staff believe that more could and should be done. The need is there and the benefits are readily apparent. One only has to ask officials in Oklahoma City or Los Angeles or Sioux City or a thousand other communities across the country.

The following recommendations are provided for your consideration to enhance training division capabilities at the Emergency Management Institute:

I. Provide additional staff (FTE)

—4 training specialists in exercise design and control to conduct offerings of the very popular integrated emergency management course for medium and small cities.

—2 training specialists in structural engineering and design to develop and conduct additional hazard mitigation courses for architects, engineers, building contractors, and building officials.

—2 training specialists in managing the consequences of terrorism to support the interagency training in this area.

—2 training specialists in response and recovery operations.

—2 program assistants to provide training support.

—Total: 12 additional positions—$850,000 additional S&E.

II. Provide additional funds

—Restore the 36 percent travel budget cut ($37,000) and add $60,000 (total travel increase $97,000). These travel funds will make it possible to go to the States to pilot test new courses and help the States conduct community-specific training. It should be noted that it is more cost effective to send instructors to the students than to bring students to the instructors.

—Restore the 6.5 percent cut in program (EMPA) funds ($700,000) and add $600,000 to develop, test, and deploy new courses that have been requested by the States (total EMPA increase $1.3 million).

—Total $1.4 million.

At this time, I would like to address the situation at the United States Fire Administration (USFA).

USFA employees are very hard working and mission oriented. They have achieved a solid record of accomplishments, and they want to maintain the high standards of quality service that Congress and the American people expect. However, the employees are concerned that Congress may not be aware that there are serious problems facing USFA.

The problems which are outlined below all stem from a growing disparity between increased responsibilities and shrinking resources. Over the years, since 1979, the nature of the challenges facing the fire service has changed dramatically, and USFA has been asked to assist in a broad range of activities concerning arson, hazardous materials, terrorism, firefighter health and safety, emergency medical services, incident command systems, disaster response, and integrating new technologies into the fire service. During this same period, USFA staff had to suffer a number of very painful cuts.

In 1979 when USFA became part of the Federal Emergency Management Agency (FEMA), USFA had 240 employees which included a staff of 80 working in the Na-

tional Fire Academy (NFA) and a staff of 12 dedicated to public education. Currently, USFA is authorized only 101 positions (FTE) including only 37 in NFA and only 1 full-time person devoted to public education. So, fewer people have been expected to do more and more. Many of the staff now have more on their plates than they can say grace over. To make matters worse, the difficulties facing the staff have been exacerbated by recent cuts in funds for facilities maintenance, travel, employee training, and research.

So, what impact does all this have on the staff and on mission accomplishment? (The following problems are shown separately but are essentially intertwined.)

1. Very few vacancies have been filled within USFA in recent years (some positions have been taken by FEMA to meet other priority needs). The work of these unfilled positions has been given to remaining staff. The result—some important areas are not receiving enough staff time and attention. Staff are frustrated and morale is low.

2. The new technologies available today require new skills, but USFA has not been able to hire new people who have these skills and lacks employee development funds to train current staff to develop these skills in-house. The result—USFA will not be able to meet the future needs of some of its customers in the fire service.

3. In fiscal year 1997 travel funds have been cut by over 37 percent. The result—there will be substantial reduction in attendance at meetings of fire service groups across the country for coalition building, program coordination, technical assistance, project monitoring, etc.

4. Over the past few years, funds have been shifted from research to development of a simulation laboratory in NFA and for other purposes. The result—so far in fiscal year 1997, there have been no new initiatives in firefighter health and safety research or in adapting new technologies for prevention, detection, and suppression.

Many USFA employees are not only concerned and upset about the current difficulties, but also feel that USFA should be doing more—much more in every area symbolized by the four "stars," outlined in Public Law 93–498.

1. The first star is the National Fire Data Center. This underfunded, poorly staffed group does not have one statistician to analyze the data and does not have sufficient resources to help the States expand and improve the national fire incident reporting system. Good data is essential to define the fire problems in each State and indicate where more research, training, and public education may be needed.

2. The second star is research into new fire technologies. Some of the funds originally allocated for these purposes have been cut and/or diverted to other purposes. The staff feel that more needs to be done to investigate ways to make protective clothing, self-contained breathing apparatus, communications, and other equipment lighter, stronger, more effective, and less expensive. Other under-explored areas include alternatives to sprinklers, use of compressed-air foam in structural firefighting, and use of advanced technology developed by the Department of Defense in firefighting.

3. The third star is public education. Even the best pamphlets, public service announcements, and news magazine articles will not reach the low-income populations that have a significant number of fires in the United States. A new, more aggressive approach is needed. USFA should have the staff and resources to work with each State to help build coalitions/partnerships with State and local agencies, school districts, churches, and community groups to coordinate a broad range of fire, crime prevention, hazard mitigation, and other public safety programs for a comprehensive safety campaign. The one full-time person assigned to public education cannot do this job.

4. The fourth star is training and continuing education of the management of the fire service across the country. The staff of NFA are stretched to the breaking point. The staff have no back-up. They are five miles wide and one inch deep. And, they are asked to do more and more. Management wants new courses developed for independent distance learning to reach 300,000 students in the fire service and allied professions. However, the staff are not themselves trained to develop distance education programs. They recognize the potential, but are frustrated that they lack the skills to develop effective training in this new milieu and do not have the resources to hire those that do—either as employees or as contractors/consultants.

When all aspects are considered, the four "stars" could be and should be shining brighter.

In summary, the staff believe that the cuts have been too deep for too long and have gone beyond what Congress had intended. Therefore, we appeal to you to restore the USFA to an appropriate level commensurate with mission requirements (our recommendations are attached).

You may hear from others who might not support our requests because of concerns about the cost. However, we believe that the cost of having an effective USFA will be more than offset through saving tax dollars in other areas.

For example, when USFA was a larger and stronger organization, it helped bring about a dramatic reduction in the number of fires, fire deaths, and injuries. However, since USFA was weakened, the decline slowed and leveled off. If a revitalized USFA can help reduce the numbers further, it will benefit everyone. If you just consider the staggering social and financial costs to treat burn injuries, the potential savings in this alone could be a dramatic return on investment.

UNITED STATES FIRE ADMINISTRATION/NATIONAL FIRE ACADEMY SUPPLEMENTAL BUDGET REQUEST

*I. Critical, additional staff needs*

National Fire Academy
—2 Distance education specialists
—1 Simulation laboratory manager
—1 Computer media specialist
—1 Branch chief for distance delivery programs
National Fire Data Center
—2 statisticians
Fire Prevention and Public Education
—2 Public education specialists
—2 Arson prevention specialists
—1 Fire management specialist (wildfire)
Technology and Research
—2 Fire protection engineers
—1 EMS specialist
Support
—Convert 5 term employees to permanent (no cost)
Total
—15 additional positions—$1 million additional S&E cost

*II. Additional Funding Needs*

—Restore $2.2 million for research;
—Restore travel funds to $250,000;
—Provide $50,000 for individual employee training and development;
—Provide $2 million additional per year for 4 years to develop, test, and deploy distance education courses;
—Provide $2 million additional per year for 4 years for the national arson prevention initiative combined with improved public education initiatives;
—Provide $1 million additional per year to meet increased operating and maintenance costs;
—Total: $7.5 million

NOTE.—The requested positions and funding should not be taken from other elements of FEMA. "Robbing Peter to pay Paul" would cause more harm than good.

---

PREPARED STATEMENT OF LARRY A. LARSON, EXECUTIVE DIRECTOR, ASSOCIATION OF STATE FLOODPLAIN MANAGERS

The Association of State Floodplain Managers (ASFPM) is pleased to have the opportunity to advise you of our overall support for the budget request of the Federal Emergency Management Agency (FEMA) for fiscal year 1998. In particular, we support the agency's request for $50 million for a Pre-disaster Mitigation Fund.

Association members are your state and local "partners" helping to reduce current and future flood losses. Our members consist primarily of state and local officials engaged in flood disaster mitigation, coordination with the National Flood Insurance Program, coordination with the Corps of Engineers and other federal agencies involved with floodplain issues, floodplain management planning and protection of public health and safety. Also among our members are private flood planning, engineering, and mitigation specialists.

In the face of major amounts needed for disaster response, it is critical to explore ways to mitigate disaster losses. Significant work has already been done through cooperative FEMA, state and local efforts to plan and implement mitigation strategies. It is important to note, however, that it can be difficult to define and give an accurate dollar figure to the losses which, as a result of mitigation, did not occur. When a disaster happens, it is much easier to count up and document the damage than to count up and document damage that did not occur because of mitigation.

FEMA Director James Lee Witt has focused significant attention during his tenure on the importance of mitigating disaster impacts before they happen. As the former Arkansas State Emergency Management Director, he understands first hand the kinds of steps that could be taken by local and state governments in cooperation with others, which could result in important reductions in loss of life and damage to property in the event of natural disasters. These kinds of measures, however, do require planning, organizing, often political decisions and cooperation among various groups and interests.

In response to the seemingly ever increasing dollar and human costs of natural disasters, FEMA has made major strides toward more rapid, efficient response during and after disasters. Progress has also been made towards streamlining, simplifying, and improving internal agency processes. The strong focus on mitigation has produced results. An especially clear example involved the relocation of thousands of houses and other buildings from the floodplain following the major Midwest floods of 1993. When, incredibly, the same areas flooded again in 1995, the homes were not there to flood.

Due to the foresight of the House and Senate Appropriations Committees, FEMA was asked to undertake a new effort to explore avenues of pre-disaster mitigation in the current fiscal year. The agency's initial efforts in that regard have made clear the need for a more substantial initiative, which will save taxpayers more than the cost of the mitigation measure.

ASFPM strongly and enthusiastically supports the pre-disaster mitigation initiative. Although the details have not been finalized, we are supportive because we recognize the importance of FEMA having this ability to step outside of regular program areas to bring creative and thoughtful effort to a potentially very fruitful endeavor. Successful mitigation could result in major cost savings. We urge the Subcommittee to provide at least the $50 million sought in the FEMA fiscal year 1998 budget request.

The current flooding in North Dakota demonstrates the need for pre-disaster mitigation. It especially demonstrates the need for greater levels of mitigation for critical facilities, including hospitals and water supply facilities. All too often, people first think of structural measures, such as levees and dams. These measures are expensive; they require continual maintenance, and they are always subject to overtopping and failure. These failures cause more catastrophic damage. The focus for the pre-disaster mitigation funds must include non-structural measures.

On another matter, we urge the Subcommittee to take action again for fiscal year 1998 to provide an additional $50 million in borrowing authority for the National Flood Insurance Fund. Although that matter may be addressed by the authorizing committee, if it becomes necessary, we hope that the VA–HUD Independent Agencies Subcommittee could again provides assistance to ensure that the Flood Insurance Fund can continue to pay the claims filed by flood insurance policy holders. An exceedingly large amount of flooding has occurred in recent years, taxing the resources of the Flood Insurance Fund (which is funded by policy premiums and administrative fees). Changes in the NFIP were effected by the 1994 Flood Insurance Reform Act designed to update, correct and improve the NFIP and to reduce losses through mitigation measures. Many of those improvements are just now being implemented through finalized regulations. Studies mandated by that Act will, no doubt, also point toward further improvements. In the meantime, in the face of dramatic instances of severe flooding, it seems wise and prudent to continue the additional $50 million in borrowing authority beyond its current September 30 expiration date.

---

## NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

### PREPARED STATEMENT OF STEVEN CHARVAT, CEM, NCCEM PRESIDENT, EMERGENCY MANAGEMENT COORDINATOR, CITY OF PHOENIX, AZ

The National Coordinating Council on Emergency Management (NCCEM) appreciates the opportunity to comment on the 1998 budget request by the Federal Emergency Management Agency (FEMA). NCCEM is a national organization dedicated to promoting the goals of saving lives and protecting property during emergencies and disasters. With over 1,600 members, NCCEM is the primary organization that brings together emergency management and disaster response professionals from government, the military, the private sector, and volunteer organizations at the local, state and federal levels.

NCCEM supports FEMA's fiscal year 1998 request, and we urge you to provide the full funding requested. It could be much higher, and not be wasted. However,

in deference to the laudable efforts by both Congress and the Administration to control runaway federal spending, we are not begging for large additions to the request.

Nevertheless, we in NCCEM want to state most strongly that this nation cannot afford any further erosion of our preparedness to deal with emergencies and disasters—which now have to include the consequences of terrorist acts. In the name of budget balancing, we have seen the scissors waved not only over after-the-fact disaster relief, but over the planning and preparedness funds which are the only way those post-disaster relief costs can be forced down.

Some areas are particularly important, from our perspective:

*State and Local Assistance.*—This item in FEMA's budget now subsumes the old Emergency Management Assistance (EMA) program. The money provided through EMA to each of more than 5,000 local jurisdictions has never been a princely sum, but it has had a catalytic effect. In a quick survey two years ago, a dozen local jurisdictions reported receiving EMA funds in the range of $20,000 to $30,000 a year, which represents anywhere from 6 percent to 30 percent of their emergency management departmental budget. Because it has been a 50–50 match program, every million dollars cut from EMA has meant two million dollars less in emergency preparedness.

NCCEM believes it is most important to maintain FEMA's funding for State and Local Assistance (SLA). This item has been cut as far as possible, and if any more reductions are made to FEMA's budget, NCCEM urges that they be borne by programs other than SLA.

Some local programs already are suffering greatly, in part because of FEMA's recent conversion to the more flexible Performance Partnership Agreement (PPA) with states. Before the PPA, a percentage of EMA funds was required to be passed on by states to local jurisdictions. It provided a minimum-level skeleton emergency management program for many jurisdictions, and served to cement the local/state/federal partnership that is vital to an effective disaster response. Under FEMA's new Performance Partnership Agreements, the agency is eliminating the distinction among its various funds-sharing programs. Thus there no longer is a requirement for any funds to be passed through to the local level; FEMA merely expects states to work cooperatively with local jurisdictions.

That works well in some states, not so well in others. The uncertainty of funding levels creates serious difficulties for some local jurisdictions, whose programs depend on a regular amount of federal funding to maintain stability and continuity. Even if a specific pass-through percentage is not mandated, NCCEM would like to see FEMA require states to consult and share the funding with jurisdictions, or face some consequence, such as greater FEMA control over their state programs. Aggressive action is needed to assure that local governments get an adequate share of available federal money for disaster preparedness.

Program stability and continuity also would be enhanced if SLA funding could be on a two-year cycle. Many states operate on a biannual budget cycle, and all states require time to adjust to change funding formulas. Thus NCCEM urges that a transition period of at least two full fiscal years be provided for a state to accommodate to agreed changes.

*Mitigation.*—NCCEM fully supports FEMA's request for a $50 million pre-disaster mitigation fund. We all recognize the importance of mitigation, but it can be costly. Federal leadership is important in this area, both in disseminating information and providing seed money to encourage the application of more state and local resources to mitigation activities. More will be needed, but the $50 million appropriation is a solid start.

*Disaster Relief Funds/Stafford Act.*—NCCEM favors retaining the original language of the Stafford Act, relating to a 75 percent federal cost share for disaster relief. Already, despite the current nominal 75 percent federal share, the federal government effectively contributes less than 50 percent of the cost of local government disaster response and recovery.

Consistent application by FEMA of all regulations and policies would greatly help state and local governments prepare by learning from the experiences of others who have undergone Presidentially declared disasters. Right now, the rules change from disaster to disaster, and FEMA even tries to apply revised rules in mid-recovery instead of prospectively.

Above all, though, NCCEM urges this committee to appropriate all the funds requested by FEMA. The programs are too important to the nation's health to suffer any further cuts. And with FEMA's current emphasis on mitigation, this money spent up-front will help reduce the growing sums spent on disaster relief after the fact.

Thank you for hearing us. Please contact our headquarters at the address on the letterhead if there is any further information we could help you gather.

PREPARED STATEMENT ON BEHALF OF UNIVERSITY OF CALIFORNIA AT SAN DIEGO'S SCRIPPS INSTITUTION OF OCEANOGRAPHY AND COLUMBIA UNIVERSITY'S LAMONT-DOHERTY EARTH OBSERVATORY

On behalf of the University of California at San Diego's Scripps Institution of Oceanography and Columbia University's Lamont-Doherty Earth Observatory, we urge you to include $5 million in the FEMA Mitigation section of the fiscal year 1998 Veterans Affairs, HUD, and Independent Agencies appropriations bill to improve the quality and U.S. utilization of seasonal to interannual climate prediction data for weather-related disaster planning and mitigation.

Scientists are close to being able to forecast long-term climatic conditions and the likelihood of extreme events, providing an opportunity to allay the devastation and uncertainty they bring. These funds could be used to capitalize on opportunities associated with emerging forecasting capabilities on seasonal-to-interannual time scales. This will allow the United States to build optimal decision-making into weather- and climate-sensitive sectors of the economy, such as agriculture, construction, energy production and use, transportation, insurance and water resources management.

This funding would be used for a peer-reviewed, competitive, external grants program to support the development of regional partnerships (Federal, State, local governments, scientists, and the private sector) to improve and utilize climate prediction information in weather-related disaster planning. The funding should be included in FEMA (Mitigation Directorate) section of the bill and could be accompanied by language directing FEMA to work in consultation with the NOAA, USDA and the Department of the Interior on the development of the Request for Proposals and the proposal review process.

Recent catastrophic flooding provides a stark example of the huge cost of natural disasters to the U.S. economy. As the nation sacrifices to balance the federal budget while still investing in economic growth, health and national security, the costs of unmitigated natural disasters are no longer affordable. Investments must be made now to improve prediction, mitigation and response to natural disasters and reduce future costs.

Hydrometeorological hazards, from droughts to tornadoes, are responsible for 85 percent of the Presidentially-declared disasters in the United States. Floods have caused a greater loss of life and property, and have disrupted more families and communities than all other natural hazards combined. In a 1-year period, Hurricanes Andrew and Iniki, the March 1993 "storm of the century," and the Midwest floods cost the country over $50 billion. NOAA's Climate Data Center estimates that 15 major weather-related disasters alone resulted in direct and indirect losses of $70 billion between August 1992 and January 1996.

Continued U.S. population growth, increased urbanization, increased capital and physical plant and concentration in hazard-prone areas virtually guarantee that economic losses from weather-related disasters will continue to rise. The rising toll of insured losses, government expenditures and other indicators provide mounting evidence that the U.S. government must develop resilience to weather-related disasters.

Some weather-related disasters, if predicted far enough in advance, offer opportunities for active intervention and significant cost-mitigation. Today public and private decision-makers have access to operational weather forecasts and warnings of extreme events which allow for some protection of life and property from immediate threats. This information is only of limited value, however, for long term planning and strategic mitigation. Recent research offers exciting new capabilities to forecast climatic conditions, seasons to a year in advance.

While there is an ongoing program in seasonal/interannual climate research and experimental forecasting, there is no program targeted at applying these new insights in a focused mitigation research effort. $5 million should be included in the FEMA Mitigation section of the fiscal year 1998 Veterans Affairs, HUD, and Independent Agencies appropriations bill to improve the quality and use of seasonal to interannual climate prediction data for weather-related disaster planning and mitigation.

This program will allow the U.S. to build optimal decision-making into weather- and climate-sensitive sectors of the economy, such as agriculture, construction, energy production and use, transportation, insurance and water-resources management. These partnerships should also include emergency response professionals and promote coordinated regional planning and action.

*Research advances offer cost-savings opportunity*.—Much of what makes weather-related disasters so terribly disruptive is that there is inadequate time to prepare. Scientists are on the verge of being able to issue long-term guidance on climatic con-

ditions and the likelihood of extreme events providing a chance to allay the devastation and uncertainty they bring. This program will help to shift the focus from reaction to anticipation on the basis of seasonal to interannual climate predictions and comprehensive, coordinated regional planning and action.

*Partnership is critical*.—Because warnings and dissemination necessarily involve both the giving and receiving of information, partnership is therefore fundamental. Reducing losses caused by extreme weather events requires that probability prediction of extreme conditions be transferred to the user community, including various State and local agencies, private industry and the public, and that the user community be actively involved in the creation of appropriate prediction-information products. By providing funds to link researchers and local users, the program will encourage regional partnerships to integrate all available knowledge so there is benefit from the continuous flow of new knowledge from ongoing research.

*Interagency partnerships*.—A key component of this program is linking research agencies with agencies affected by weather/climate-related disaster. This program should leverage the interest and expertise of other federal agencies and should include FEMA, NOAA, the Department of Interior and the Department of Agriculture.

*Evaluation component*.—The program will include an evaluation component requiring that each project ensure that the work performed contributes to reduction in future damages and hardship in a reasonable amount of time and in a cost-effective manner and that regional partnerships are effectively transferring ideas or technology into information products that can be readily understood and applied by users to identify, assess, and mitigate natural hazard risks. The program should also develop the means to disseminate information nationally on best-practices developed by regional partnerships.

*External grants program*.—A majority of the program funds should be used for an external grants program. FEMA should quickly release a joint request for regional partnership proposals which use seasonal to interannual climate forecasts to mitigate costs of extreme weather events and capitalize on economic opportunities which these forecasts provide to critical sectors such as energy, transportation, and agriculture. Successful partnerships should address the need for improvements in research, the translation of research results into cost-effective mitigation approaches, and the dissemination of this information to those who can act. Regional partnerships should also include a cost-sharing component which increases during the life of the partnership.

---

## PREPARED STATEMENT OF DR. ANJAY ELZANOWSKI, THE HUMANE SOCIETY OF THE UNITED STATES [HSUS]

On behalf of The HSUS, the nation's largest animal protection organization, representing more than 4.7 million members and constituents. We thank you for the opportunity to present testimony today. We are going to limit our comments to the controversy surrounding appropriations for the Bion spaceflights, in which animals are flown on an unmanned, automated satellite.

Bion spaceflights are a joint venture between the U.S., France, and Russia. The most recent flight (Bion 11) alone cost the U.S. $13.6 million and Bion 12, to be launched in 1998, will cost American taxpayers $19.6 million.[1] Previously, the U.S. contributed $25 million for Cosmos flights launched since 1974.[2] In 1996, the House of Representatives voted 244 to 171 to slash the funding for animal experiments in Bion 11.

Bion 11 involved extremely inhumane experiments on young rhesus macaques. The primates were subjected to a combination of acute pain from the wounds inflicted in the process of instrumentation and severe distress caused by the start and landing, immobilization, and motion sickness resulting from space flight. It is unlikely that an average Animal Care and Use Committee would approve this project because of its cruelty and doubtful benefits.

One of the macaques, Multik, died after returning to Earth. Multik choked on his own vomit while under anesthesia, which suggests inadequate care (NASA's official report on the cause of death is still outstanding). NASA reacted by suspending its participation in primate research on the Bion 12 mission. However, NASA's announcement does not guarantee that primates will not be used by the other participating countries or on subsequent missions. The announcement mentions the use of other animals referred to as "appropriate models". Therefore, it is important to

---

[1] Budgetary Resource Requirements for Bion 11/12. Life & Biomedical Sciences and Applications Division, NASA. 1995

[2] Life Sciences input to FOIA U95–1013, NASA. 1995

avert any further escalation of unnecessary and egregious harm done by NASA and its partners to sentient animals, as they have done during the last two decades.

The HSUS requests the inclusion of language in the fiscal year 1998 VA, HUD and Independent Agencies Appropriations Bill that prohibits NASA from the use of any Bion funds for flights and/or experiments involving non-human mammals.

BION'S INHUMANITY

The macaques were strait-jacketed for the entire two weeks of flight (to prevent them from tearing out wires implanted in their limbs). These wires, which were tied to 14 electrodes, were implanted into arm and leg muscles, tunneled under the skin and exited from a hole in the monkey's back. A thermometer was surgically buried in each monkey's abdomen, with a wire exiting another hole in the back. To fully immobilize their heads, metal Evarts crowns ("halos") were fixed to their skulls using eight screws. The research protocols call for multiple survival surgeries, at least six including de-instrumentation, and state themselves that the surgeries are very painful.

Dr. Roger White (Board-Certified Anesthesiologist, Mayo Clinic) characterized the implantation processes as "the most invasive experimental procedures ever imposed on an animal" and the immobilizing head crown as "particularly aggressive, to the point of being macabre as well as cruel."

Dr. Jennifer Leaning (Board-Certified Internal/Emergency Medicine, Harvard Medical School) reviewed the Bion 11/12 protocols and stated that "this kind of animal experimentation might have proceeded only a few years ago with little or no comment or objection. Now it cannot and must not. If humane alternatives cannot be identified, as the investigators assume, then this project should be abandoned or radically revised and reviewed again."

The animal protection community has drawn public scrutiny to the inhumanity in the Bion project. These concerns were validated in two independent reviews of the Bion project. The first review, which resulted in the Fettman Report of April 1995, followed in the wake of the resignation of Dr. Sharon Vanderlip, Chief of Veterinary Services at NASA's Ames Research Center (ARC) in Moffett Field, California. In her resignation letter to NASA Administrator Dan Goldin, Dr. Vanderlip wrote: "In my 15 years as a laboratory * * * veterinarian, I have never encountered the arrogance and blatant disregard for policies, regulations and animal welfare that I witnessed at the [ARC] * * *. During my service * * * (July 1993 until my resignation in March 1994), a review of the medical records of the non-human primates indicated NASA's failure to provide appropriate surgical monitoring, pre- and post-operative care, and analgesia. Post-operative deaths were not uncommon * * *. NASA officials told me NASA had no control over the care of Bion monkeys in Russia. Veterinarians participating in the project who had visited the Russian facility and observed the animals on location told me conditions were 'draconian' and that the animals received food of little or no nutritional quality."

Dr. Vanderlip also tells of being "specifically ordered to disregard the animal welfare act, violate regulations, and to purge documents of botched experiments." She adds that: "[many] of the individuals associated with the animal research component of Bion 11 are the same individuals who demonstrated a total lack of respect for or understanding of animal welfare, laws, policies and procedures while I was Chief of Veterinary Services for NASA."

The second review (the Fettman Report of August 1995) was in response to 27 allegations of inadequate or negligent care made by People for the Ethical Treatment of Animals (PETA). These failings resulted in the death of more than 20 primates at the ARC. The investigation found that ten of the allegations were true and that seven of the remaining seventeen allegations could not be proved nor disproved by the NASA/ARC medical records. The investigation found poor communication between the animal caretakers, project managers and veterinarians, and medical record-keeping inconsistent with standard operating procedures.

The report cites chilling incidents of neglect and mistreatment. Two squirrel monkeys died of water deprivation. A monkey described as lethargic, limping, bruised and anorexic from a recent surgery, was deemed fit a week later and then died during surgery the following week. Monkey #524 was accidentally overdosed on Telazol. Monkey #M103 had lesions associated with chair restraint and complications with the instrument implantation sites intermittently over a three year period. The panel found that Rhesus monkeys being used for the Bion project were "chaired" for days at a time and were being checked only twice a day.

In addition to the two Fettman investigations, NASA convened a "Task Force" on July 1, 1996 for what was to be the final review of Bion 11/12. The lone ethicist on the panel objected to the absence of an ethical review of the project. The panel

agreed that no subsequent Bion studies should proceed without an ethical review process in place. The panel also recommended a broad study of NASA's entire life sciences research program, including a look at the care and treatment of animals.

Responding to the panel's recommendations, NASA's ARC convened a workshop that resulted in the "Sundowner Report." This is a two-page document that ends with a surprisingly progressive statement: "Vertebrate animals are sentient * * *. Unless the contrary is established, investigators should consider the procedures that cause pain or distress in humans may cause pain or distress in other sentient animals."

When confronted with pain and distress inflicted upon the Bion macaques, this statement shows a disturbing incoherence between NASA's declarations and deeds. At the recent Public Responsibility in Medicine and Research (PRIM&R) Conference (San Diego, March 1997) NASA's delegate used the "Sundowner Report" as a smokescreen by discussing it without any reference to their irresponsible experimentation in Bion 11.

NASA's use of animals is on the rise. While all other federal agencies report a decrease in the use of rats and mice, NASA's use has increased by 227 percent.[3]

BION'S INEFFECTIVENESS

As it often happens, the inhumaneness reveals a poor experimental design. NASA's data from Bion 11 is of highly questionable relevance to human beings on several counts. The number of monkeys on this flight was two, with one dying shortly after the flight. It doesn't take a statistician to figure out that a sample of one or two can yield unreliable data. This problem is compounded by the usual pitfalls of extrapolating information from animals to people (macaques and humans belong to different families of primates) let alone extrapolating data from immature, restrained animals to adult, unrestrained astronauts. Long-term restraint affects most body functions including bone metabolism, and severe distress compromises research on the regulatory physiology. These known pitfalls of animal experimentation for biomedical purposes are aggravated in space by the fact that large animals, that may in some respects simulate human conditions, have to be immobilized and small animals, such as rodents, are too dissimilar to provide relevant data. These are problems that continue to be overlooked by NASA even though they were cited as problems during the peer reviews. As a result, 22 years of flying rats and monkeys into space, suspending rats by their tails for weeks at a time, and confining monkeys in full body casts for weeks on end has yielded a morass of conflicting information that generates more animal research rather than helping understand human medical problems.[4 5]

It is obvious that human studies are much more relevant to human health problems. In addition, human experiments in space are not compromised by the extreme distress and restraint. According to Dr. David O. Wiebers (Board-Certified Neurologist, Mayo Clinic): "[H]uman data would be far more valid and cost-effective than animal data. Many of the surgical procedures are minor for humans (anesthesia being necessary in animals for restraint.) A cooperative human subject would not require some procedures which are done for fixation. * * * I am convinced that this project as currently designed will provide no meaningful information. * * * Based on my medical training and experience, it is not unrealistic to expect that these experiments could be done with human subjects, if they need to be done at all."

The details of Bion 11/12 research program are specified in two proposals: "Musculo-Skeletal Physiology and Behavior" and "Regulatory Physiology". All of the tests called for by the Musculo-Skeletal proposal can be performed, with modifications, in humans. In fact, many astronauts do provide tissue samples. Several studies, some of which were conducted at NASA facilities, have examined the effects of simulated weightlessness on humans, many of which involved the biopsy of the participant's bone, bone marrow or muscle tissue.[6] Bone biopsies are performed for patients suffering from osteoporosis. NASA routinely requires astronauts to submit to dual energy X-ray absorptiometry (DEXA) scans which enable researchers to definitively measure calcium resorption and determine where the most bone loss occurs.

---

[3] Davis, C. Animal use Trends in the United States 1986–1994. Tufts University School of Veterinary Medicine, 1996. p. 17.

[4] Globus, R.K., Bikle, D.D. and Morey-Holton, E. Effects of Simulated Weightlessness on Bone Mineral Metabolism. Endocrinology, Vol. 144, No. 6, pp. 2264–2270, 1984.

[5] Anderson, S.A. and Cohn, S.H. Bone Demineralization During Space Flight. The Physiologist, Vol 28, No. 4, 1985. pp. 212–217

[6] Arnaud, S.B., Sherrard, D.J., Maloney, N., Whalen, R.T. and Fung, P. Effects of 1-Week Head-Down Tilt Bed Rest on Bone Formation and the Calcium Endocrine System. Aviation, Space and Environmental Medicine, 1992; 63:14–20.

The possibilities of obtaining useful human data will be rapidly increasing with the progress of medical technology.

There is no obvious need for studying the decrease of bone density in space and Bion 11/12 does not provide any valid rationale for doing it. NASA admits that bed-rest provides a good simulation of microgravity and that more studies of this type are needed.[5 7] It is textbook knowledge that the decrease in skeletal mass in astronauts is caused by a decrease in the load that bones are subjected to and the mechanisms of this process can and have been studied in humans.[8] According to Dr. Paul W. Gikas, Emeritus Professor of Pathology (The University of Michigan Hospitals, Ann Arbor, MI): "This information has been known for years, and I question the need for additional studies. If there is adequate justification for additional studies, these experiments could be done with human subjects. Currently, open biopsies as well as large bore needle or trocar biopsies of bone and skeletal muscle are being performed to study various disease processes in humans who have given informed consent. Such studies conducted in human volunteers would obviously eliminate the disadvantages of not producing human data."

Out of nine parameters listed in the Regulatory Physiology proposal only one—brain temperature—cannot be measured in unrestrained humans. The Scientific Advisory Council of The HSUS strongly believes that the measurement of 8 out of 9 parameters in unrestrained humans is by far more reliable and useful than the measurement of 9 out 9 parameters in stressed and immobilized animals.

Instead of obtaining questionable data from animals, NASA should recruit astronauts willing to provide the necessary tissue samples, information that would help their fellow astronauts. The astronauts in the American space program are devoted to the betterment of that program and the future welfare of their fellow astronauts. Astronauts on spaceflights as early as the Gemini series and on several of the Apollo and Skylab missions submitted to a battery of pre- and post-flight examinations and sampling.[5 9] If bone and other routine biopsies are really necessary, participation in a mission can and should be made contingent upon giving an informed consent to these biopsies.

### CONCLUSION

In conclusion, we believe that (1) the philosophy and design of the Bion program were flawed from the very outset; (2) flying animals into space, at least in the way it has been done by NASA so far, is terribly inhumane, ineffective scientifically, and wasteful economically; (3) information that is useful for future manned flights should be obtained in humans, hundreds of which have and continue to spend time in space; and that (4) given the budgetary constraints that our space program continues to experience, any tax dollars appropriated to NASA should be restricted to only vital studies meeting the highest standards, not for highly questionable animal research.

---

## PREPARED STATEMENT OF DENNIS OLIVARES, PRESIDENT, INTERNATIONAL FEDERATION OF PROFESSIONAL AND TECHNICAL ENGINEERS, LOCAL 29

### INTRODUCTION

Madam Chairman and Members of the Subcommittee: I deeply appreciate this opportunity to testify today about my recent experiences in the federal government and the tangible recommendations I believe need to be implemented in order to bring NASA Appropriations into line with modern political mandates concerning cost-effective, or "reinvented," government. My name is Dennis Olivares, and for the past 6.5 years I have been employed by NASA at Goddard Spacefilght Center (GSFC) as a Communications/Electronics Engineer. However for the last half of that period, I have not been permitted to perform meaningful—or lately even any—engineering or project-management-type work for the government. Alas, where there's smoke there's generally fire, and accordingly much of my recent career destruction stems directly from this Agency's illicit retaliation against my longstanding, open, and occasionally effective opposition to the waste, mismanagement, and abuse of discretion I have personally encountered in GSFC operations and on three major Flight Projects (ie., Space Station/EOS Platforms, ISTP/GGS, and TDRSS). To main-

---

[7] Tipton, C.M. and Hargens, A. Physiological adaptations and countermeasures associated with long-duration spaceflights. Med. Sci. Sports Exerc., Vol. 28, No. 8, pp. 974–976, 1996.

[8] Cotran, Ramzi S. Robbins, Pathologic Basis of Disease, Fifth Edition, W.B. Saunders Company, Philadelphia, pp. 1214, 1216, 1220, 1221.

[9] Fogelman, I. and Ryan, P. Measurement of Bone Mass. Bone, 13, S23–S28 (1992).

tain and hopefully restore my civil-service status, I have undertaken a number of defensive initiatives which have caused this Agency and I to be locked in legal combat for over 4 years, but I do not intend to discuss these today. However, those ongoing battles coupled with my official, employee—representational duties as an elected Union Officer have provided me with many additional insights such that I helped found and am engaged in leading the Whistleblower's Alliance and Relocation Network (WARN) on an extracurricular basis; many of the recommendations I make today in this Statement are derived from the legislative proposals now being advocated by that Group, aptly nicknamed WARN.

REQUEST SUMMARY

Senators, I am herewith requesting that this Subcommittee reexamine the budget package submitted by my Agency and seriously consider doing the following:

—Cutting at least $1.3 Billion from the total life-cycle costs of the TDRSS and/or TDRSS–II Program(s);
—Totally defunding the NASA Inspector General's Operations in perpetuity (c. $210 million per year);
—Cutting at least $20 Million from Space Technology "R&D" Programs devoted to Spacecraft Data Systems;
—Cutting at least $200 Million from the EOS AM/PM Platform Project(s) pending a formal investigation of the same;
—Cutting at least $9 Million from GSFC Quality-Assurance Operations relating to the Unisys/Paramax Support Contract (c. $85 Million) pending a format investigation of the same; and
—Increasing funding by at least $100 Million for the Large/Small Explorers, Earth Probes, and Spartan Programs whose historical payback rates have been positively proven "at the bank."

That concludes the oral portion of my Statement. I would like the written remainder of my Statement to be herewith appended and included in the record without exception. Finally before proceeding, I trust that it is recognized that I am submitting this Statement to the Congress in good faith and complete honesty pursuant to 5 U.S.C. § 7211 and related protective statutes. Although obvious, I reiterate this extra protection of First-Amendment rights because I am uncertain what awaits me in the following weeks.

BACKGROUNDS

I was hired at Goddard at the tail-end of 1986 via response to an advertisement in the Washington Post for GS–13/14-level communications, electrical, and systems engineers. Despite my somewhat mature, journeyman professional statue, I came into the government with, what in retrospect has proven to be, severe naivete regarding the Merit System as well as the actual innovation mission of NASA/GSFC. Yet for a while, I enjoyed significant career success, although nowhere near the levels of achievement and recognition I was able to reach in the private sector.

Although this Agency has recently and pretextually chosen to attack my academic credentials, technical competence, and overall credibility—and is being sorely taken to task for such defamation—I assure you that the following observations and conclusions are true, valid, and objectively verifiable in copious publications of both the print and electronic media during the past four years. If I were remotely mistaken about any of these issues, I assure you I would not risk this Statement here today. I firmly believe these abuses need to be checked cold and, if possible, reversed and prohibited for the future health and integrity of NASA.

Although I have previously had numerous low-key/low-output dealings with the Government Affairs Committee, the GAO, and other enforcement and investigative entities over some of these issues, it has recently occurred to me that nothing could focus an Agency's attention on a problem as quickly or efficiently as impinging on its future appropriations in a way that forces a swift resolution of that problem. To me, this amounts to a revolutionary end-run around the traditional watchdog mechanisms which simply do not work at all or anywhere near well enough to give a fair return on taxpayers' investment in NASA. The spirit of the times (i.e., government accountability) and basic concepts of justice demand that such an experiment be undertaken. Accordingly, I have made five recommendations along these lines—five areas where I know significant waste, mismanagement, and abuse of discretion has occurred and is mostly still occurring. I propose that the Congress cut these preidentified amounts from the fiscal year 1994 and subsequent NASA Budgets, less, perhaps, 5 percent for the administrative or litigation costs to recover those amounts, which the GAO should certify, increase or decrease. These are not trivial sums, and the effort would be worth it, particularly the exemplary effect it would

have on other profligate federal agencies once such seismic waves resonate throughout the government. An agency suitably starved for funds would thus have no choice but to take the due care and serious efforts (which they should have done before) and recoup their misspent funds and discipline their management problems—and quickly! The page-limitation imposed by the Subcommittee for these purposes forces me to disclose nothing beyond brief clues regarding the budget cuts proposed in the five above-identified areas. I place myself at the disposition of the Members and their staff regarding further evidence and information to support my stated positions.

TDRSS, ATDRSS AND TDRSS–II COST OVERRUNS

The seeds of my own career destruction were inadvertently sown in early 1987 when, despite (or, in retrospect, possibly because of) my inexperience in government, I was chosen by the Engineering Directorate (Code 700) to be detailed to the Tracking Data-Relay Satellite (TDRS) Project Office (Code 405) to help them evaluate complex and voluminous set of fixed-price and cost-plus proposals from TRW and CONTEL. These proposals were an omnibus set of level-of-effort claims against the government, and they were collectively referred to as "Shuttle-Delay and Related Claims"; for shorthand purposes they were called "P6" which stood for Period 6 of the Master Contract NAS5–25000 which ran from April 1, 1986, until the end of 1993. The original nominal dollar amount for these P6 claims totaled around $165 Million. Previously, the P5 Technical Evaluation Team had taken a somewhat "hard-line" approach was instrumental in recouping around $11 Million from the TDRSS Contractors TRW an CONTEL. They were so mortified by our P6 fact-finding questions that they withdrew their Proposals. Later, TRW and CONTEL resubmitted "R1" P6 Proposals around February of 1988. These were revised and somewhat descoped versions of what they had sent in earlier (i.e., with only the fixed-price part of the Contract addressed), but now costs had been inflated up to a nominal $178 Million. Later, I was to prove that the actual overall proposed costs were higher still—near $187.4 Million—and the Evaluation which I spearheaded ended up recommending loaded-cost disallowances totaling $54.3 Million dollars! This was no mean feat nor paltry sum. Although sent to this Project as a relative "tenderfoot," I quickly overcame my deficiencies and acquired the requisite skills such that I was recommended for promotion (to GS–14), step-increase, and cash award.

But then, "funny things" began to happen to me. No promotion to this day for starters, and although the most technically competent engineer to assist in the P6 Negotiations I was deliberately and systematically kept away from the proceedings. Later, I learned that about $29 Million had been recovered for the government, and I felt good; that money was my early contribution to the "amortization" of my own career costs. I more than paid for myself with that one effort, even if I live to be 500 years old! However, $29 Million was good to have, but over $54 Million had been proven and profusely documented. I figured we were due about another $20 Million from the grossly mismanaged Contractors. No manager has the discretion to hand out tips and gratuities on that scale, so I began to ask questions that never got answered to this day. Therefore, the Congress should slash $20 Million from the TDRSS line item(s) until such time as those answers, or that misspent money, are forthcoming. Immediate reorganization and restaffing of that Project Office should also be required at once; the elevation of the TDRS Project Manager from GM–15 to SES, as has recently been advertised, should be halted or undone as well.

Instead of answers, a wall of silence was erected in 1989, and I was reassigned to the prestigious Advanced-TDRSS (ATDRSS, since renamed to TDRSS–II) Procurement Development Team to keep me quiet and busy. A $70 Million question also arose on the F7 and F8 Satellite Contracts to TRW, but that one proved almost impenetrable for me. (I have since learned that the NASA IG may have heeded my clues in this area at long last.) And all that pointless showboating—and expensive—transcontinental travel the TDRS Project Office still engages in! Needless to say, I did not last long in Code 405, especially when I began to openly oppose and get reluctantly changed deeply imbedded biases which favored the awarding of the ATDRSS contract to TRW through the political mandating of such requirements as the so-called "Cluster Satellite Architecture." The job I had was assumed by obedient in-house service contractors—and openly advertised about a year later—and I was sent back home to Code 735 where I essentially have not been able to secure any further meaningful assignment. So I became active in the Engineers' Union and the Automobile Club, and of course the quest for legal redress. The rest of the technical details of this story have been provided to the Congress through the Government Affairs Committee, which details how 4 or 5 satellites, especially now that Ka-band service has been abandoned, can do the job that the Agency has specified for

10 satellites, which is a life-cycle-cost impact of an additional $1 Billion or so. Space News has indicated that these funds have already been pulled back. Good! "Ghost stories" about a potential deficit in data-traffic-handling capacity in upcoming years can be readily debunked by a critical examination of the Space Network Mission Model.

INSPECTOR GENERAL'S OPERATIONS

Also as detailed in my 16-page Statement last year to the Government Affairs Committee, the NASA OIG is virtually a drone entity and wholly ineffective WARN, of which I am the current Vice-President, has legislative proposals floating about which recommend the outright abolition of the Office of Special Counsel (OSC) and all the Agency OIG's as creatures of the Agencies per se. The replacement would be an Office modeled on the autonomous Federal Reserve Board and would absorb the individual agency IG's as direct-subordinate branches. We would eliminate the IG's current discretion to ignore problems by having the option to conduct either an "audit" or an "investigation." Both need to be utilized each time a project or an activity is brought under scrutiny. Agency-located IG Branch Offices would be staffed with cross-trained project engineers and auditors from the agency's ranks—possibly on a rotational basis. Such personnel, unlike the common fare in a typical agency's OIG, would be competent and could converse fluently in the agency/industry jargon and would not be intellectually unarmed in a technical discussion with a shrewd and willful project manager or engineer whose motives might not necessarily stem from the Code of Ethics. Much of what is currently swept under the carpet would cease by virtue of this lone reform!

The replacement strategy is well-described elsewhere, and I will not reiterate those details now. Instead, I simply can upon the Subcommittee to anticipate this Enactment and totally defund the NASA-OIG to the tune of around $210 Million annually. Substantially more money can be saved by the self-financing OIG for the United States which is being proposed along with its operating concept which will establish a competent, committed, and protected corps of oversight professionals.

IN-HOUSE "RESEARCH AND DEVELOPMENT" ABUSES

One of the first oddities I encountered when I entered NASA from the private-sector was all the duplication and triplication of design efforts relating to data systems and data-handling components for space or earth applications. Nobody else's system is good enough for collaboration, to the extent it is even known, because it was "Not Invented Here". Thus do we joke about the NIH Syndrome at Goddard. Some managers see such quests as healthy competitive contests, and others view it as therapeutic to cure the ignorance of the vast numbers of college fresh-outs we lately employed. However, I believe that both such motivations are improper when it amounts to mere reinvention of the wheel and does not offer substantial improvement over commercially available off-the-shelf. I and my colleagues have estimated that the latest Spacecraft Data System Developments done in-house by GSFC personnel and a cadre of service contractors have spent between $15 Million and $60 Million to reinvent a "wheel" that does not transport/store data any faster than the industry's norm (2 Mbps). That is an expensive in-house training program! That is the NIH Syndrome at its worst. Accordingly, I take a conservative estimate of $20 Million and ask the Subcommittee to withhold this amount from next year's "R&D" funding in the hopes that some real advances in the state of the art might be forthcoming.

SPACE STATION PLATFORMS/EARTH-OBSERVING SYSTEM (EOS)

It is when significant aerospace-contractor effort becomes involved, especially on macro-projects involving large and/or multiple spacecraft, that NIH Syndrome becomes truly expensive—hundreds, instead of merely tens, of millions of dollars get wasted. GE Astro (now Martin Marietta) has expended around $450 Million doing "Viewgraph Engineering" and producing no significant spacecraft hardware for their macro-Platform which formerly was under the aegis of Space Station and now under EOS, where between $52 Million and $140 Million has gone into the EOS–AM design. They too could make use of commercially available subcontracts for standard hardware which would save tons of money. Instead, they have been allowed to get away with proposing ultra-profitable in-house fabrications—a disastrous strategy as GSFC Management should well know via the experiences with the 2 ISTP/Global Geospace Science Satellites.

I urge the Subcommittee to have the GAO examine this Project and recommend a $200 Million cut to get some attention to this situation.

THE QUALITY-ASSURANCE EMPIRE AT GSFC

Through the handling of a grievance over an employee who was constructively fired for engaging in responsible oversight regarding the UNISYS/Paramax Support Contract for Code 300, I have become aware of substantial areas for concern. Since litigation is pending in this area, I will merely recommend that the Subcommittee cut $9 Million from this QA line item and dispatch the GAO to sources of information that I shall designate at a subsequent time * * *.

SUGGESTED PROJECTS AND COST-CENTERS FOR INCREASED APPROPRIATIONS

Based on past performance as well as prudent risk-assessment theory, I urge the Subcommittee to increase funding for small-satellite endeavors by at least $100 Million. Macro-spacecraft just never seem to get off the viewgraphs, and when they do (e.g., TDRS, HST, UARS, GRO, GOES-Next, Magellan, etc.) they are plagued by all manner of technical troubles. The Explorers generally deliver more and quicker. EOS should be descoped to use more small-sats as well. Spartan deserves to demonstrate the concept of "recyclable spacecraft" in the manner of EURECA.

CONCLUSIONS

Poor, poor contractor oversight, desertion of role as national R&D leader, wholesale abandonment of Merit-System Principles are the three greatest evils that NASA must exorcise from its ranks. Also true is a variation on the cliché "You can't legislate morality," e.g., federal integrity, in view of the current structure of government which actually rewards that perversion of institutional cooperation (i.e., being a team-player) which seeks to suppress, cover-up or distort the truth about "controversial" federal programs and to punish all those who fail to go along with the scheme. These anti-values are constantly reinforced with admonitions about not rocking the boat or about the inability to fight "the System," which needs to be totally redesigned to attenuate all those existing disincentives to responsible government service, especially where contractor-oversight is involved. Those who would oppose wrongdoing or advocate and implement genuine reforms are literally and brutally sacrificed! What follows are my supplemental recommendations to effectuate some very badly needed reforms in a technologically oriented agency like NASA.

SUPPLEMENTAL RECOMMENDATIONS

(A) Conduct a moratorium on dealings with the OSC or any agency IG Office until such times as the following necessary reforms have been implemented.

(B) To enable Whistleblowers to come forward as was intended, but not realized by the Whistleblower Protection Act of 1989, abolish the farcical Office of Special Counsel (OSC), and transfer its core functions to either the OMB, the FBI or perhaps some wholly new and truly independent agency to be known as the USIG (Office of the Inspector General for the United States).

(C) Eliminate or cut back on agency Procurement Officers, who as a professional class are usually even less well-educated than IG agents as regards the mission, projects, and technology of the agency/industry. They are even easier to control by unethical managers and engineers who frequently form unholy alliances with these contract officers to "pacify" complaining contractors to the tune of billions of wasted dollars each year. They are widely thought to be "in the way" by conscientious individuals, thus making the current arrangement a kind of welfare program for procurement-types. As such, their authority far outstrips their understanding; they are truly support personnel who presume to lead an enterprise they do not adequately comprehend.

As a replacement, the adoption of the private sector's "engineer-manager concept" is suggested: Weed-out generic managers and nontechnical bean-counters! Train technical engineers in the business sciences, and retain the better procurement officers and train them in the agency/industry technology in the manner of physics-for-poets courses. Then give this new corps of engineer-managers plenary responsibility, including both credit and blame, over the key aspects of their project work. Such a new method of doing business would tend to raise the stakes of performing well and create a much-needed locus for accountability. The present System diffuses—and often outright obscures—true accountability, which guarantees cost overruns, poor employee performance, malignant management oversight, undeserved advancement, poor overall morale, and the negative cycle just continues to spiral inward on itself.

(D) Insist on the use of Firm-Fixed-Price Contracts for the procurement of all major elements of hardware and engineering support services, and then police these contracts strictly and with adequately trained (and suitably committed) engineer-

managers. Cost-Plus Contracts have proven an absolute disaster in recent NASA spacecraft programs for a complex array of reasons. Do not let NASA escape its mandate of last year which requires the promulgation of cost-recovery procurement rules for poor-performing contractors!

(E) Upgrade the overall competence of so-called Quality Assurance Engineering groups, where far too many nontechnical, generic engineers find a convenient haven to flex bureaucratic muscle at the expense of rational cost and proper mission goals for agencies (like NASA) charged with core R&D function on behalf of taxpayers. Much of this function can be plowed directly back into the engineer-manager corps, where it rightfully belongs; even Ford Motor Co. recognizes that "Quality is job one!"

(F) Strengthen Federal Unions by eliminating the gross inequities engineered into Title VII of the Civil Service Reform Act

First, change 5 USC § 7106 to equalize matters and permit competent unions (i.e., those with scientists, engineers, mathematicians, and programmers) to negotiate over matters of substance, instead of only limited "procedures." This would include the prioritization of major capital projects, staffing and skill-mix (to insure against pre-engineered incompetence), internal cost-benefit analyzing, improper contracting-out of core agency functions, improvident bestowal of performance awards to contractors as well as agency units, union-initiated transfers or details of whistleblowers to "safe havens" to thwart illicit retaliatory campaigns, and similar things which go to the heart of the agency's mission, productivity, and accountability to both the taxpayers and the Merit System.

Secondly, amend 5 USC §§ 7116(d) and 7123 to enable federal unions to obtain temporary restraining orders and other injunctive relief (through the currently hostile and politicized Federal Labor-Relations Authority) for instances where they assist and subsequently have to defend a whistleblower from agency-sponsored retaliation. At present, the FLRA is abusing their discretion by adopting ultra vires, nonstatutory restrictions in the application for TRO's by refusing to seek relief for "mere" individuals, etc.

Thirdly, provide federal unions the statutory right to proceed directly to federal district court for a de nova review of unfavorable appeals from the FLRA General Counsel—at least in cases involving whistleblower defenses. Such cause(s) of action should provide for sanctions and/or damages against both the agency and the FLRA for harmful error, abuse of discretion, and other willful conduct.

I hope these suggestions have been helpful.

---

## PREPARED STATEMENT OF MARY L. SANDY, CHAIR, NATIONAL COUNCIL OF SPACE GRANT DIRECTORS

### THE NATIONAL SPACE GRANT COLLEGE AND FELLOWSHIP PROGRAM

*I. Historical Overview*

In 1988, Congress established the National Space Grant College and Fellowship Program which is administered by NASA. The program was developed to "increase the understanding, assessment, development and utilization of space resources by promoting a strong education base, responsive research and training activities, and broad and prompt dissemination of knowledge and technology" (Public Law 100–147). The program uses state-based consortia of universities, industry and state and private partners to:

—Build research infrastructure and capabilities in aerospace related/high technology fields;
—Improve math, science, technology and engineering education at all levels, kindergarten through graduate;
—Foster partnerships among industry, government and private entities to meet Space Grant goals; and
—Enhance public science literacy.

There is a Space Grant consortium in each state, as well as in the District of Columbia and Puerto Rico. These state-level Consortia, which are heavily networked at the national level, represent a tremendous national resource for high technology workforce preparation, and U.S. research and technology competitiveness. The program now has a well established infrastructure for fostering the creation of new and innovative partnerships for science and technology research, as well as for providing a venue for using technology applications at the grass-roots local level.

By 1991, all 52 Consortia had been established. Nationally the program has grown by over 68 percent from 348 member institutions in 1991 to 586 member institutions today. For every NASA dollar invested in the program in 1995 (the latest year for which full data is available), the Nation reaped rewards of more than $3

of cash and in-kind contributions from non-program resources. For 1995, this seed money, well spent at the state and local level, yielded:

(1) 332 Higher Education programs involving 28,000 participants with activities including student and faculty development, new curriculum development, publications and institution development programs. As part of this effort five new centers, seven new majors, 22 new minors and 79 courses in aerospace-related fields of science and technology were established.

(2) 1,700 Graduate Fellowships and Undergraduate Research Scholarships totaling in excess of $8.5 million. These awards, while open to all students, encourage participation by females and underrepresented minorities.

(3) 409 programs to build Research Capability. NASA funding of $1.6 million was leveraged ten fold with $16.3 million to create programs reaching many participants. This funding supported such activities as seed research grants, establishment of research collaborations, and faculty release time for the development of innovative research proposals. Proposals won through this initiative in 1995 totaled $29.5 million.

(4) Precollege (K–12) programs which reached 700,000 participants through 507 programs. NASA funding of nearly $2 million was leveraged nearly five to one with state, private and other federal support. A broad range of activities included teacher preparation and enhancement programs, curriculum development and dissemination, and support of student opportunities, many offering real world research and hands-on experiences.

(5) A NASA investment of $445,758 in public service/external relations programs which netted in excess of a five to one match. Programs, including radio, television and other public programs—260 in all—raised public science literacy of nearly 3 million participants.

*II. The Need for Expanded Resources*

Recognizing that the National Space Grant College and Fellowship Program is a national asset, and the significant contributions of the Space Grant Program in:

—Bringing benefits of aerospace science and technology to the people of the nation;

—Creating community-based, public-private partnerships;

—Strengthening education and training at the K–12, higher education, public outreach levels; and

—Building high technology research infrastructure at colleges and universities in conjunction with industry and government partnerships.

The National Council of Space Grant Directors has evaluated the program's status and its needs in order to continue to adequately serve its constituents and to meet growing program demands. This review considered:

—The high leveraging capability of the program and its demonstrated success in meeting science and technological goals at the state and national levels;

—The fact that the number of program participants has grown by 68 percent since 1991 while funding to the National Space Grant Consortia has remained flat since 1991, with an actual decrease in national program funding;

—The growth in programmatic demands placed upon the state-based consortia;

—The eligibility of many states/consortia (including but not limited to Alaska, Delaware, District of Columbia, Kansas, Indiana, Minnesota, Missouri, New Hampshire, New Jersey, North Carolina, Oregon, West Virginia, Wisconsin) to raise their status and funding levels to those of the Phase I awardees; and

—The need to work with state and local agencies to ensure that aerospace technologies are available for use at the most practical local level.

In light of the success of the program and the needs indicated above, the Council urges Congress to provide a permanent budget increase of $10 million to commence with the fiscal year 1998 year, which will allow:

—An increase in the funding to the 52 consortia to bring them in real dollars to the 1990 funding levels and permit a continuation of the consortia programs as envisioned in the original legislation. ($3.5 million)

—States funded at less than a Phase 1/Designated Space Grant level to compete for full funding and appropriate designation and to provide more equitable funding to the larger state consortia. ($2.8 million)

—Extended resources to establish a Space Grant program of state-wide partnerships to encourage the practical application of aerospace technology and science (e.g., local dissemination of remotely sensed data to end users such as farmers, natural hazards programs, land use planners, marine resource managers and others) in partnership with established state extension and natural resources programs. This will build the capacity to develop appropriate deliverables and to partner with extension networks in the transfer of technology for solving high

priority problems of individuals and communities. It will accelerate the translation of data into useful information, and design educational programs that foster adoption of technologies and practices that address local needs. ($3.7 million)

The Council hopes that Congress will provide this funding as an increase to the NASA budget in lieu of taking funding from other NASA programs.

Ten years ago, another Congress wisely recognized the urgent need for a technically competent and motivated workforce and created the National Space Grant College and Fellowship Program. The Space Grant Program has been both effective and efficient—in spite of dwindling resources. The seed has been planted and the roots are established. But the program is now at a critical point—it will either wither on the vine or it will blossom and bear fruit. The National Council of Space Grant Directors urges the committee to support the program at the full $23.3 million level, to protect the investments already made and to harvest the benefits of an outstanding program.

---

## NATIONAL SCIENCE FOUNDATION

### PREPARED STATEMENT OF SRI INTERNATIONAL

### THE POLAR CAP OBSERVATORY

#### EXECUTIVE SUMMARY

The National Science Foundation has proposed the establishment of a Polar Cap Observatory (PCO) funded in the amount of $25M out of their Major Research Equipment (MRE) funds in fiscal year 1998. The requested funding has been deferred by the Congress pending resubmission by the NSF with appropriate supporting documentation. This memorandum summarizes some of the key scientific, technical, and logistical issues associated with the proposed PCO.

*Science.*—The polar cap region is the last remaining largely unexplored frontier for upper atmospheric science. It is at these high latitudes that the major interactions between the solar wind and the Earth's environment takes place. One can always say that science is "good" and leading edge science is even better. Clearly, the proposed PCO will result in new leading edge science. However, there are also practical consequences of the polar cap science. It will provide the heretofore unobtainable measurements needed to model and predict the effects of the solar interactions with man's environment and thus enable mitigating actions to be taken. For example, some solar storms create communication outages on both satellite- and ground-based links. They create surges on power lines that lead to power outages over very large portions of the world. They affect the resolution of our space-borne imaging systems. They can even lead to failures of semiconductor components on spacecraft and thus the loss of multimillion dollar sensing and communication platforms in space.

*Technical.*—The technical specifications for the PCO have been studied and reviewed for almost a decade. The main instrument is a powerful radar (called an incoherent scatter radar), akin to a few others that exist in the world, none within the polar cap. However, the radar proposed for the PCO is of a modern design (a phased array) that would make it significantly more flexible than those currently in operation. The added flexibility is very important because of the dynamic polar cap environment in which the system will operate. In the polar regions, ionospheric effects happen on time scales of seconds, requiring electronic rather than mechanical steering of the radar antenna. Complementing the radar is an array of sophisticated optical instrumentation to provide a more complete picture of the polar cap phenomenology. A technical challenge to be dealt with is the effects of the severe Arctic environment on the instrumentation. SRI has successfully dealt with comparable technical challenges for over 25 years with research facilities we have built and operated in Alaska, Canada, Antarctica, Scandinavia, and Greenland.

*Logistics.*—The logistical challenges of building a major instrument at a remote location are well known and planned for in the proposal for the PCO at Resolute. We currently operate a small-scale research facility at that location for the NSF. We operate a major research facility in Greenland. We have dealt with and are currently working with the major Canadian construction firm that is responsible for construction and maintenance at Resolute and many other Canadian arctic locations. This firm would be the construction subcontractor for the PCO and was instrumental in working with us to develop the construction and logistics plans for the facility. Detailed plans have been developed and are spelled out in the successful (but yet unfunded) proposal to NSF for the PCO.

DISCUSSION

The paragraphs which follow expand on the scientific, technical, and logistical (including construction schedule) considerations.

*Scientific Basis*.—Our planet is embedded in the outer reaches of the Sun's atmosphere which expands at a very high velocity. This solar wind carries energy and momentum to the vicinity of the Earth. The Earth's magnetic field, which extends far into space, plays a crucial role in absorbing and directing this energy and momentum toward the atmosphere. Most of the energy transfer to the Earth from the solar wind is accomplished electrically, and nearly the entire voltage associated with this process appears in the polar cap region. The total voltage across the polar cap can be as large as 100,000 volts, rivaling that of thunderstorm electrification of the planet in magnitude. This polar cap electric field is the major source of large-scale horizontal voltage differences in the atmosphere. Moreover, the dynamic polar region accounts for a large fraction of the variability inherent in our upper atmosphere, variability due to chaotic changes in the solar wind magnetic field which produce large-scale restructuring of the cavity that encloses the Earth's magnetic field. This restructuring visibly manifests itself most clearly in the production of ionized plasmas and the associated distribution of aurora high over the north and south polar regions. In turn, the Earth's lower atmosphere (that part responsible for weather phenomena) undergoes variations in composition and dynamics influenced by these coupling effects through a complex, and as yet not fully understood, feedback system. A polar cap observatory suitably equipped with radar and optical instruments will be able to determine the characteristics and variability of crucial terrestrial parameters during a time when a number of satellite platforms record the variations in the solar wind and in the Earth's near-space region.

Presently, there are very few observations of the upper atmosphere over the polar cap. Yet observations of this region are crucial because this is where the solar wind most directly couples with the Earth's atmosphere. Lack of polar cap observations represents the most conspicuous gap in our understanding of the Earth's upper atmosphere.

The scientific need for a PCO, as summarized above, was identified and strongly supported in a series of community-driven meetings and symposia that resulted in a comprehensive report entitled "The Polar Cap Observatory: The Next Step in Upper Atmospheric Science." This report was the final and consensus product of a workshop held at Cornell University in 1989 in which more than 100 atmospheric scientists participated.

From a more practical standpoint, the PCO will provide measurements needed for modeling and understanding the conditions in the space environment, called Space Weather, that can influence the performance and reliability of space-borne and ground-based technological systems. Space Weather storms can cause disruption of satellites, communications, navigation, and electric power distribution grids. Both the electric fields and particle precipitation in the polar regions are direct indicators of the state of space weather.

In addition to space science, the PCO will contribute important information to address critical problems in atmospheric sciences. For example, the highest clouds in the Earth's atmosphere occur in the summer polar region, clouds which may never have formed before the emergence of widespread human habitation of the Earth. Clearly, understanding the complex interplay between lower atmosphere, solar wind, and local sources of energy and momentum in the tenuous upper atmosphere is an important challenge for atmospheric science in its attempts to understand and mitigate the significant, long term, and potentially deleterious impact of man on his environment.

The proposed location of the PCO at Resolute Bay, Canada, is within 6 degrees of the magnetic north pole, well within the polar cap. There is no location in U.S. territory within about 20 degrees from the magnetic pole making it impossible to do the frontier polar cap research from a U.S. location. Resolute Bay location is also at the apex of two existing chains of radar facilities, both of which will derive enormous benefits from the added information about energy transferred directly from the solar wind into the polar regions.

*Technical Issues*.—As a result of the compelling community-wide scientific support for the PCO, the NSF granted three awards in 1990 to develop more detailed technical designs for the major components of the observatory:

—A Design Study for the Incoherent Scatter Radar for the PCO; conducted by SRI International; 1991

—Design Study for a Polar Cap Observatory Radar Data Acquisition System; conducted by MIT; 1991

—The Polar Cap Observatory Optical Interferometry and Spectroscopy: A Design Study Plan; conducted by University of Michigan and Boston University; 1991

The final reports from these studies, together with the initial comprehensive report, established both the scientific importance and technical feasibility of constructing and operating an upper atmospheric observatory deep within the northern polar cap.

The main component of the Polar Cap Observatory will be a state-of-the-art incoherent scatter radar consisting of a high-power transmitter, a large antenna, and sophisticated receiving and signal processing equipment. The antenna will be steerable, allowing measurements over a large portion of the polar cap. Incoherent scatter radars provide the only ground-based opportunity to measure ionospheric electron density, electron temperature, ion temperature, ion composition, ion collision frequencies, and ion velocities over a range of altitudes from 80 km to over 1,000 km. In addition, the facility will include a suite of optical and radio devices for remotely sensing atmospheric parameters not measured by the incoherent scatter radar. The final Observatory will provide, by far, the most comprehensive set of polar cap diagnostic instruments in the world, meeting the research needs of many scientists in both the national and international communities.

*Logistical Issues.*—Resolute Bay was selected as the site for the PCO after NSF-funded visits to several candidate locations in the Arctic. Of all the candidate sites, Resolute Bay had the most favorable logistical support base: an airport sufficient to handle jet cargo planes and a port capable of handling a large cargo ship. Under NSF funding, the proposed PCO site has been instrumented as a small-scale radio and optical observatory of polar cap phenomena. The existing facility consists of a 1,640 square foot structure and associated power generator building together with a small suite of scientific instruments that have already produced some tantalizing new scientific results. Development of this "Early Polar Cap Observatory" has given SRI valuable experience in establishing, sustaining, and supporting a research station at Resolute. Relationships have been established with local support contractors and detailed knowledge is at hand on logistic support availability, Arctic construction issues, and Canadian government requirements and environmental regulations. The major Canadian construction contractor currently operating at Resolute has provided the expertise, designs, and costing included in the winning proposal for construction of the PCO. Thus the best possible logistic and construction advice has been obtained. In addition, members of the town council of Resolute have been informed of the plans for a PCO and are excited about its potential for providing the town with new educational and tourism possibilities. Memoranda of Understanding have been negotiated by NSF with the Canadian authorities concerning the use of Resolute for the proposed PCO.

*Construction Schedules.*—As with any Arctic construction, the PCO activities will be dictated by two crucial factors: the limited shipping season and the weather. Bulky and/or massive items must, necessarily, be transported to Resolute Bay by ship, as the availability of air-freight for those items is limited to the cargo capacity of a C–130 and would be cost-prohibitive. The shipping season consists of basically a single opportunity each year, the High Arctic Eastern Sealift, which usually arrives at Resolute Bay around the first week in September. Items to be placed on that shipment must reach the port in Montreal before the end of July. This constraint is determined by the relatively short period during which the local sea ice conditions allow vessels into this region.

The weather is, of course, also a limiting factor for construction. For example, the foundations for the various structures cannot be installed before the ground is clear of snow. This generally occurs in July. Outdoor construction activities also tend to be much less efficient during the inclement winter months.

Given these constraints, SRI proposed the following schedule, balancing shipping and logistics considerations with the desire for access to the facility by the scientific community as close to solar maximum as is feasible:

In the first year, the site is prepared and the building and antenna foundations installed. At SRI, the structural and electrical design of the antenna will be completed and fabrication of the antenna elements will begin.

In the second year, the antenna structure is fabricated and shipped to Resolute Bay. Prior to shipment, the structure will be test assembled at the fabricator's facility to eliminate uncertainties in either fabrication or erection techniques. Members of the on-site construction team will be present for the test assembly in California to ensure that the assembly proceeds smoothly in Resolute Bay. At the site, construction of the main building is completed and work is begun on installing radar equipment, optical instruments, and data acquisition hardware and software.

During the third year, the antenna support structure will be completed at the site and integration of the individual antenna elements units (AEU's) will begin. The

AEU's will have been tested in California, but they will be shipped in a disassembled state to reduce the bulk and packaging requirements. They will then be reassembled in an enclosed area in Resolute Bay, tested, and integrated onto the antenna panels. Testing will begin on the antenna, the computer network, radar instrumentation and data acquisition system.

In the fourth year, final integration and testing of the radar system will be completed, as will final testing of the optical instrumentation. Scientific operations will then begin.

*Project Management*.—During the construction phase, SRI International will maintain a Polar Cap Observatory Project Office to provide the day to day management of the project. Monthly, the PCO Project Office will provide status reports to NSF and to the Canadian Government Liaison covering such items as construction schedule, budget, and quality control of the project. The PCO Project Office will be responsible for coordinating infrastructure and logistics support for all activities to be conducted at the site.

After construction is completed, SRI's PCO Project Office will continue to serve as the center for logistics and infrastructure support for the facility. It will coordinate the facility's use, ensure the safety and reliability of the instruments and buildings, provide scientific and technical advice to users of the facility, and conduct training courses in the use of the radar.

Oversight of the project will be conducted by the NSF with the assistance of its expert advisory panels. The Canadian Government has chosen the Canadian Space Agency to act as the official Canadian Government Liaison to NSF in matters relating to the PCO. In addition, SRI and NSF will work continuously with the proper local authorities in the Northwest Territories of Canada to provide and receive advice as required on logistic, environmental, political, and management aspects of the PCO project.

*Timeliness*.—With the approaching maximum phase of the 11-year solar cycle (around 2001), development of the PCO is especially timely. If construction is started in 1998, the Observatory will be operational in time to observe near solar maximum when the most dynamic processes and interactions occur. Also, in 2001 the suite of satellites launched as part of the International Solar Terrestrial Physics (ISTP) program will still be operational leading to excellent opportunities for collaborative science. With a one-year delay, the status of the ISTP satellites will be more uncertain. And the declining phase of the solar cycle will have started. This phase of the solar cycle is marked by the frequent occurrence of intense magnetic storms and by the arrival at Earth of energetic electron streams from the Sun, so-called "killer electrons" because of their deleterious effects on satellite systems. It should be pointed out, however, that significant observations can be made throughout the solar cycle, even through the minimum. Determining the solar cycle dependencies of the Sun-Earth interactions is critically important to understanding the phenomenology.

## SUMMARY

The Polar Cap Observatory is truly an exciting project. In this memorandum we have touched on some of the scientific drivers of the PCO. Not only will it lead to important new insights in basic science, but it will contribute immediate societal benefit in addressing problems related to Space Weather (such as effects on man-made communications, navigation, power distribution and space-based imaging systems) and Global Change (including impact of man on the Earth's climate).

Technically, the PCO incoherent scatter radar will be one of the most advanced and powerful in the world and will reestablish U.S. leadership in the field. It has been about three decades since the U.S. has built an incoherent scatter radar facility, even though the success of such facilities has been borne out by the scientific breakthroughs they have inspired, and by the fact that they are all still operating with continued high demand for observing time.

The site at Resolute Bay has been carefully selected on the basis of its proximity to the magnetic pole and because logistically it is the most favorable settlement in the Arctic. The PCO has the potential to become a source of pride for the local community at Resolute and will represent a shining example of U.S. ingenuity standing out in this remote and harsh environment. It will also encourage and solidify the historically excellent scientific collaboration between U.S. and Canadian scientists.

Finally, we note the importance of embarking on this project as quickly as possible to take advantage of the maximum phase of the solar cycle and the coordinated observations provided by an international suite of satellites launched as part of the ISTP program.

## PREPARED STATEMENT OF BRUCE S. MCEWEN, PH.D., FOR THE SOCIETY FOR NEUROSCIENCE

I am testifying on behalf of the Society for Neuroscience, the largest scientific organization in the world dedicated to the study of the brain and spinal cord, and the more than 50 million Americans with brain disorders. Mr. Chairman, we are very grateful for this opportunity to present our testimony and for all that the Subcommittee has done in the past to support neuroscience research. The Society for Neuroscience consists of more than 26,000 basic and clinical neuroscience researchers affiliated with universities, hospitals and scientific institutions throughout North America and abroad.

I would like to advocate for increased research funding for the National Science Foundation (NSF) and the Department of Veterans Affairs (VA). The Society for Neuroscience is well aware of the tight fiscal constraints facing this nation, but we also recognize the importance of increased funding for scientists and researchers. In the past, the NSF and VA have faced particularly tough limitations on their research programs due to limited federal dollars.

### NATIONAL SCIENCE FOUNDATION

For fiscal year 1998, the Administration's budget request is $3.367 billion for the NSF. The Administration requested $2.5 billion for Research and Related Activities, a 3.4 percent increase over fiscal year 1997, which includes $330.8 million for Biological Sciences and $129.7 million for Social, Behavioral and Economic Sciences. The Society for Neuroscience urges this Subcommittee to raise the budget of the NSF to $3.505 billion for fiscal year 1998, a 7.1 percent increase or $232 million over fiscal year 1997.

We believe that NSF-sponsored research is a major source of knowledge for today's researchers and provides a setting in which tomorrow's researchers are trained. The NSF funds researchers at more than 2,000 colleges, universities and other institutions in the United States. These researchers have added to the advancement of scientific knowledge while furthering technological developments around the world. In fact, five out of the eight Nobel Laureates in the natural sciences in 1996 received NSF funding at some point in their career. A further decline in federal support would have grave effects on the NSF resulting in a lowering of both basic science and science education.

Basic research is the key to understanding neurological and mental disorders, and medical breakthroughs cannot be achieved without a significant increase. The NSF funds hundreds of studies on the fundamental properties of the central nervous system, and much of what we know about complex higher nervous and cortical function has been the result of basic brain research. The NSF also supports basic research in molecular genetics, which is highly important to understanding the brain. Much of basic neuroscience research is at the cellular and molecular level, and it is a realistic goal that we will have a comprehensive understanding of brain function at the molecular and cellular level by the year 2000.

Some of the most exciting and challenging scientific research opportunities address the mapping of function onto the structure of the brain. The NSF plays the pivotal role in the development and support of this multidisciplinary research area through activities that provide unique opportunities for neuroscientists to collaborate with investigators in mathematical, computer and information sciences and engineering. Teaming modern brain scientists employing molecular biology, neurogenetic, neurophysiological, psychological and computational techniques with investigators in these other scientific disciplines provides a broad essential scientific infrastructure which will ultimately lead to the development of novel solutions to problems in neuroscience research. A few examples of the important research conducted at the NSF is listed below:

—NSF-sponsored research supports a great deal of this country's research in developmental neurobiology, a field dedicated to how the brain evolves, develops and changes.

—NSF-sponsored research programs have pioneered the development of cognitive neuroscience, which combines the study of behavior and cognition and artificial intelligence systems with basic neurobiological studies.

NSF-sponsored research has improved imaging techniques that enable physicians to improve the quality of patient care by altering the way people look at themselves. These new imaging techniques are faster and more cost-effective than in the past.

NSF-sponsored research studies the physiological and psychological processes involved in the production and perception of speech and on the biological bases of language in the central nervous system.

—NSF-sponsored research programs in neuroendocrinology establishes the only activity in the federal government in which neuroendocrinology, an area of research important for integrating physiological processes throughout the body from development tonging, is fostered as a distinct comprehensive discipline supporting comparative studies across all species.

The Society for Neuroscience is deeply and firmly committed to the basic science approach and strategy represented by the NSF. It is at the NSF where basic and fundamental questions about brain structure and function are supported. Research conducted at the NSF serves as the very foundation that scientists build upon. A wide spectrum of studies, ranging from single cell organisms to the human brain, are included in the research portfolio of the NSF.

The NSF deserves the level of support we are requesting. The Congress can feel comfortable in knowing that it is money well spent, and that ultimately this research will bring benefits to millions of citizens in this country.

DEPARTMENT OF VETERANS AFFAIRS

For fiscal year 1998, the Administration has requested $234.4 million for the VA Medical and Prosthetic Research Program, a 10.5 percent reduction over fiscal year 1997. Again, we recognize the tight fiscal constraints faced by this Subcommittee, but we urge you to increase funding for the VA to at least $280 million for fiscal year 1998. Without this increase, the VA will be unable to keep up with its current research efforts. In 1986, the VA funded 2,434 investigator-initiated research projects. Because of decreasing resources, the VA has only been able to fund approximately 1,414 programs in 1997. Currently, the VA only funds 15 to 20 percent of approved health research projects—an all time low for funding opportunities for VA researchers.

A few examples of the important research conducted at the VA is listed below:

—VA-sponsored research in neuroscience has begun to develop promising discoveries in brain and spinal cord trauma, epilepsy, Parkinson's disease, amyotrophic lateral sclerosis, schizophrenia, multiple sclerosis, Alzheimer's disease and depression.

—VA-sponsored research is vital for the ongoing conduct of basic and clinical studies in the cause and the effective treatment of crippling and disabling mental disorders.

—VA-sponsored research has developed an Alzheimer's disease assessment scale that helps diagnose the condition early while also enhancing the quality of life for sufferers of Alzheimer's disease by producing memory therapy, a non-pharmacological technique.

—VA-sponsored researchers are developing treatments for schizophrenia after finding that the severity of schizophrenic symptoms is associated with the level of dopamine breakdown in the spinal fluid and blood.

A decreasing level of funding in VA research, as proposed by the Administration for fiscal year 1998, would seriously compromise, and lead to the ultimate demise of the important research conducted at the VA. Every day, these programs are developing new methods to understand, diagnose and treat devastating disorders. The decreasing level of research funding will in a very direct sense compromise the health of tens of millions of our veterans. In addition to our veterans who will suffer from a decrease in funding, so will society at large, as it is advances in research conducted at the VA that have a profound and long lasting impact all over the world.

In the past, more than half of the nation's physicians received some part of their medical training through the VA. The VA medical system provides an excellent opportunity to conduct large clinical trials, and veterans receive highly skilled medical care through various affiliation arrangements. However, inadequate funding has inhibited the VA's ability to recruit high quality researchers as it has done in the past. In fact, the VA has not been able to award any of its Career Development Awards in the past two years. As a result, the VA has had to reduce its staff, consolidate hospitals and clinics, and lower a number of existing services at medical centers. Because of the continuing shortfall of research funding within the VA, the status and the very integrity of the entire VA research program is in serious jeopardy. This would be tragic for the nation's millions of veterans.

In conclusion, the Society for Neuroscience recognizes the constraints that the drive for deficit reduction has placed on all discretionary programs for fiscal year 1998. We are also fully aware of the many critical programs this Subcommittee must fund; however, we strongly believe that the research programs we are advocating are investments for the future, and we urge you to place NSF and VA research among the Subcommittee's highest priorities.

Thank you for your consideration of our requests. I would be pleased to answer any questions the Subcommittee may have.

---

PREPARED STATEMENT OF JOHN W. SUTTIE, PH.D., PRESIDENT, FEDERATION OF AMERICAN SOCIETIES FOR EXPERIMENTAL BIOLOGY

Mr. Chairman, Ms. Mikulski, and Members of the Subcommittee: I am John Suttie, current President of the Federation of American Societies for Experimental Biology (FASEB). I am also a Professor of Biochemistry at the University of Wisconsin, Madison, as well as a Professor and Chair of the Department of Nutrition Sciences at that institution. It is as President of the Federation that I come before you today in support of the important life sciences research conducted at three agencies under your jurisdiction—the National Science Foundation (NSF), the Department of Veterans Affairs (VA), and the National Aeronautics and Space Administration (NASA). While these agencies have very different missions, they all have one unique characteristic in common—the fundamental biomedical and biological research funded through these institutions enriches the scientific knowledge base, and results in substantial medical and technological advancements.

For those of the committee not familiar with it, FASEB is a coalition of 14 societies with a combined membership of more than 43,000 scientists who work in life sciences research at all the major universities and corporate research laboratories. The Federation was created in 1912 to provide an organization that could represent the views of the basic research scientist in the science policy debates of its day. More than 80 years later, this still remains the fundamental purpose of the Federation. FASEB, through its annual policy development process, provides a vehicle for the basic scientist to be heard in public policy deliberations which affect biomedical and life science research in this country. We bring a unique perspective to the difficult policy questions this Subcommittee must face in allocating scarce federal resources.

NATIONAL SCIENCE FOUNDATION

NSF is the sole federal agency with the mission to promote a broad program of basic research and education in science. While the focus of the FASEB membership is on life sciences, the growing interdependence of all scientific disciplines compels a new approach for the 21st century. Discoveries in physics affect biology, and new mathematical approaches have effects on physics. Findings in materials science are of critical importance to medicine and engineering. Breakthroughs in engineering and computational technologies are important to all areas of the nation's economic and health-related scientific endeavors. It is for this reason that FASEB has worked closely with the Coalition for National Science Funding and nearly 80 other scientific societies to request a 7.1 percent increase for the NSF in fiscal year 1998.

The scientific advancements made possible by NSF-funded research lead to industrial development and economic growth, including new jobs, and continue to improve the quality of life for our citizens. For example:

—NSF-sponsored fundamental research on microorganisms lead to the discovery of DNA-cutting enzymes, called restriction endonucleases, that have played an essential role in the development of the field of molecular biology and biotechnology industry it has spawned.

—Student participation in NSF-funded research at universities develops the workforce to support development and growth of the biotechnology industry; NSF also supports science education at all levels from kindergarten through postdoctoral.

—It is estimated that at least half of all economic growth in the United States results from advances in technology. Basic research supported by NSF fosters new advances that sustain this growth.

Yet, despite these exceptional contributions to our nation, NSF will be able to fund in fiscal year 1997 only a fraction of the proposals rated highly meritorious in the peer-review process. Moreover, the purchasing power of NSF grants is declining. In 1995, the NSF received $3.27 billion; in 1996 that number decreased to $3.18 billion. While that amount was restored to $3.27 billion in 1997, it still means that the NSF budget has lost 6.1 percent of its purchasing power since 1995 because of inflation—a decrease in real average value per grant from about $80,000 two years ago to $73,300 this year. There has been only a modest increase of about 1 percent in the number of grants funded by NSF since 1995. Thus, although funding of scientific grants is central to NSF's purpose, the number of grants has stagnated while the purchasing power has decreased. Continued decline will delay our progress in

science as important new proposals remain unfunded and weaken the technical infrastructure that demands a workforce educated in the disciplines of science.

Because of this alarming trend and its implications for the nation's technological competitiveness, FASEB recommends $3.504 billion, or a 7.1 percent increase, for NSF for fiscal year 1998. This will replace the 6.1 percent inflationary loss sustained since 1995 and provide a modest 1 percent growth in the NSF appropriation. This small increment would permit funding of a larger fraction of the outstanding science projects which will contribute to our improved health, economic growth, and quality of life. This figure is similar to the amount for fiscal year 1998 approved last week by the House of Representatives when it passed H.R. 1273, the National Science Authorization Act.

VETERANS AFFAIRS MEDICAL RESEARCH

I now will focus on FASEB's recommendation for the Department of Veterans Affairs (VA) medical research. Our nation has the obligation to provide the highest quality health care to U.S. veterans. The VA research and development program enhances the quality of veteran's health care in several ways: it brings a cadre of highly trained physicians to the VA and contributes greatly to the health needs of our former fighting men and women. This program integrates clinical needs with fundamental research and assures the rapid transfer of new knowledge from the laboratory to the bedside. It has also produced outstanding developments in the field of biomedical research affecting the greater population at large. Recent examples include:

—VA-sponsored research was responsible for identifying new mutations in the presenilin gene associated with some forms of hereditary (autosomal dominant) forms of Alzheimer's disease.

—VA investigators led the successful effort to identify and clone the gene defective in Werner's syndrome, a rare human disorder in which the affected individuals exhibit a number of features of premature aging. This has been considered a viable, if accelerated, model of the aging process and the function of the identified gene in the aging process of normal individuals is now under investigation.

—VA researchers have applied molecular biologic techniques to the rapid diagnosis of tuberculosis, allowing diagnosis in two days rather than the 4–6 weeks usually necessary for growth of the organism. This should result in earlier treatment and reduced periods of hospitalization.

Yet, despite these important discoveries, VA-sponsored research is in serious jeopardy. The budget for VA research has not kept pace with inflation, resulting in missed opportunities to address research issues related to veterans' health, deterioration of the VA research infrastructure, and a growing inability to provide opportunities for research career development. In recent years, there has been a general decrease in the number of programs funded—in 1994, the number of funded programs was below the 1981 level.

In light of this history of stagnant funding, the $28 million cut for VA research included in the administration's fiscal year 1998 budget request would be even more devastating. This cut represents a 10.5 percent decrease in actual dollars; 15 percent when adjusted for inflation. If adopted, it would lower the funding for this vital avenue for research from $262 million to $234 million for the upcoming fiscal year. The resulting damage to these highly regarded programs would be irreparable. The VA research programs are an important part of the nation's biomedical research foundation and a major factor enhancing the quality of health care for our veterans and others. It is essential that funding for VA-sponsored research be stabilized and given modest increases.

Along with other groups, such as the over 70 organizations that make up the Friends of VA Medical Care and Health Research, FASEB urges the members of the subcommittee to soundly reject any cuts in these critical programs. We further call on you to appropriate an additional $18 million for VA research for a total of at least $280 million.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

Finally, Mr. Chairman, FASEB has funding recommendations for the National Aeronautics and Space Administration (NASA). NASA's life science research programs explore the role of gravity in fundamental biological processes. These programs are designed to help protect and enhance human life in space and to add to our knowledge of fundamental biological processes for earthbound animals and plants.

In recent years, NASA has made progress in implementing merit review for its relatively small biomedical research program in the Office of Life and Microgravity Sciences. We are concerned that NASA maintain a stable and viable basic biomedical research program, and that this research not be interrupted because of delays in space station construction or other exigencies. For fiscal year 1998, FASEB recommends $55 million for research and analysis, $5 million above the previous year.

Our detailed recommendations are included in the written report previously submitted to the committee. Mr. Chairman, this concludes my statement for the record.

---

PREPARED STATEMENT OF DR. RAYMOND E. BYE, JR., ASSOCIATE VICE PRESIDENT FOR RESEARCH, FLORIDA STATE UNIVERSITY

Mr. Chairman, thank you for the opportunity to present testimony to this Subcommittee. When at the National Science Foundation, I had the pleasure of many hours with this Subcommittee over a number of years. This Subcommittee has always done outstanding work by making difficult decisions. No fiscal times in the past have been more constrained than these times facing you and your colleagues on the Committee on Appropriations. Yet I am confident you will continue to make the difficult choices with the best interests of the Nation guiding you.

One of the decisions that I think this Subcommittee should be most proud is the support for the decision made by then-Director Erich Bloch and the National Science Board to locate the National High Magnetic Field Laboratory in Tallahassee, Florida. The proposal to NSF demonstrated that there was a truly unique opportunity for a federal partnership between the NSF and the State of Florida, as well as between the consortium involved in the NHMFL—the Florida State University, University of Florida, and Los Alamos National Laboratory. NSF's recent decision to extend the Laboratory for another five years at an enhanced level of funding is commendable in these tight fiscal times. The development of the magnet systems now in place at the Laboratory, the world-class quality of the scientific and engineering talent working at the NHMFL, and the new knowledge and potential applications emerging from the Laboratory are testimony to the wise decisions made at NSF and supported by this Subcommittee.

As the NHMFL moves toward the next century, we hope to expand the role the Laboratory plays in an array of areas. For instance, we are striving to enhance the federal partnership to include the National Institutes of Health as a full partner with NSF and the Department of Energy. This would allow major support for biological and medical-oriented research to be conducted at the NHMFL. We are seeking the assistance of the NSF—as the founding father of the NHMFL—to work with us on conveying to NIH the opportunities inherent in their involvement as a federal partner. Furthermore, upgrading and replacement of the equipment and instrumentation at the NHMFL should also be a very high priority for the scientific community. The federal and state investment in this facility is substantial; as a world-class facility, the challenge in the present and future constrained fiscal environment is how to upgrade and advance the instrumentation to continue to lead the world in this important area. We have begun discussions with NSF on how to provide funding for this major research equipment.

One of the key components that the NHMFL is focussing upon is to assist the United States in the redevelopment of magnetic-related industries that had all-but-vanished from the U.S. soil. Partnering with small and large companies is key to meeting this part of the challenge. Last month, EURUS Technologies, Inc., a small firm specializing in high-temperature superconducting leads, relocated its facilities from a foreign and non-Florida base to Tallahassee in order to work more closely with the NHMFL. We are optimistic that this is the beginning of substantial redevelopment of the U.S. magnet industry, and we are confident the NHMFL will be a significant part of this rebirth.

The advanced instrumentation at the NHMFL is continuing to allow new analyses in novel areas not previously explored. For instance, we have a proposal into the U.S. Environmental Protection Agency to fund some environmentally-related work on the Kissimmee River restoration project in south Florida. With EPA funding for some aspects of this Kissimmee River work, we are also discussing with the U.S. Army Corps of Engineers a unique addition to the EPA-funded project that would employ mass spectrometry and nuclear magnetic resonance spectrometry, along with other unique instrumentation at the NHMFL, to provide the USACE with analyses that would allow them to potentially make more environmentally-sound decisions in their future construction projects. These types of analyses, not pre-

viously possible, will allow for cost-effective decisions to be made based upon the results of this work.

Mr. Chairman, we strongly request this Subcommittee's support for the highest possible level of funding for the National Science Foundation. The President's proposal to provide an overall increase of approximately 3 percent is an absolute minimum for such an important investment in our Nation's future. The return on your investment—the young people educated, the knowledge developed and utilized by industry, the jobs created and the taxes paid—makes the funding you are able to provide the National Science Foundation probably the most cost-effective investment this Subcommittee can make. Its overhead is very low and its return very high; it is clearly a long-term investment for our citizens.

Finally, I also wish to commend the support provided by this Subcommittee to the initiatives by the Environmental Protection Agency's Science to Achieve Results (STAR). The establishment of a strong, merit-based university research program will do much to enhance the quality of EPA research. The research and fellowships provided for the requested $115 million level is also an important commitment made by EPA. I hope this Committee is able to provide that full request. Thank you for the opportunity to convey these views to the Subcommittee.

---

## PREPARED STATEMENT OF CORNELIUS J. PINGS, PH.D., PRESIDENT, ASSOCIATION OF AMERICAN UNIVERSITIES

Mr. Chairman and members of the subcommittee: I am submitting testimony today on behalf of the Association of American Universities (AAU) and the National Association of State Universities and Land-Grant Colleges (NASULGC). Our two associations include universities and colleges in every state that perform the research and education projects funded by the National Science Foundation (NSF), as well as scientific research that furthers the mission of the National Aeronautics and Space Administration (NASA). While our universities also have an interest in other agencies funded through your subcommittee, such as the Environmental Protection Agency (EPA) and others, this testimony will focus on NSF and NASA.

### NSF

#### OVERVIEW

NSF plays a crucial role in the support of university research. Although NSF represents only 3 percent of the federal budget, it provides close to 50 percent of the federal investment in academic basic research in nonbiomedical fields. Despite its comparatively small size, NSF has an extraordinarily large impact on American scientific discovery, as the only federal agency with responsibilities that cover research and education in all science and engineering fields. Moreover, NSF accomplishes its mission with remarkable efficiency. Only 4 percent of the agency's annual budget goes toward its own internal operations. The remainder, 96 percent, goes to support the actual conduct of research and education.

AAU and NASULGC are grateful for the bipartisan support for NSF shown by the members of this subcommittee through the years. As you prepare for markup of the fiscal year 1998 appropriations legislation for the Foundation, we hope you will continue your strong support for this outstanding agency.

#### INVEST 7.1 PERCENT IN NSF

As you know, for fiscal year 1998 the Administration has requested $3.367 billion for NSF. This represents a 3.0 percent increase over the final fiscal year 1997 appropriation of $3.27 billion. While the fiscal year 1998 NSF budget request is a good blueprint for continued scientific and academic excellence, we along with our colleagues in the Coalition for National Science Funding (CNSF) believe that an increase of 7.1 percent over the current year is both warranted and appropriate. Such an increase would compensate for two years of inflation, plus permit 1 percent real growth in fiscal year 1998.

For three years now, NSF's budget has not kept pace with inflation. A 7.1 percent increase would permit NSF to augment modestly the number and size of its research and education grants. NSF is currently only able to fund about one-third of the approximately 30,000 proposals it receives each year, and a 7.1 percent increase would allow it to fund more of the proposals ranked "highly meritorious."

The NSF provides financial support for research in all major scientific and engineering disciplines, with a majority of funded projects supporting the work of individual investigators with small teams of students and technicians. Payoffs from

NSF-funded research include major scientific and technological breakthroughs, the education and training of today's and tomorrow's workforce and an overall increase in national productivity.

With a 7.1 percent increase in its budget, totalling $232 million, NSF could pursue many exciting new initiatives in 1998 that would advance the United States' scientific, technological and competitive edge. One particular initiative—Knowledge and Distributed Intelligence—would promote linkages and collaborations between the science of learning and cognition and the development of interfaces and technologies for teaching and learning. NSF's role in the proposed Next Generation Internet project is also part of this package. This project would create a "smart" infrastructure for research and education at colleges and universities—one that facilitates collaboration across great geographic distances as well as great intellectual distances.

A well-educated workforce is essential to the economic well-being of the nation. As a result, NSF is dedicated to the integration of research and education at all levels. Students at even the earliest levels of education are provided with discovery-rich environments that begin preparing them for tomorrow's challenges. NSF supports similar efforts through the secondary, undergraduate, and graduate levels.

In the almost 50 years since the National Science Foundation was created, tremendous changes have taken place in our world and society. NSF has played a significant role in stimulating those changes through its investment in basic scientific and engineering research and through its development of new scientific and engineering talent. In fact, it has been estimated that at least half of all economic growth in the United States results from advances in technology fostered by academic research.

NSF support has yielded invaluable results and has contributed to an improved quality of life for all Americans. As we approach the dawn of the 21st century, it is ever more important that the nation continue its investment in science and engineering. Federal investment in the NSF improves the U.S. position by strengthening our nation's worldwide economic competitiveness and our scientific preeminence.

## NASA

Many AAU and NASULGC universities also have a strong interest in NASA programs. I would like to discuss briefly several issues affecting NASA science programs.

First, AAU and NASULGC applaud the progress which has been made in restoring stability to NASA's projected outyear budget. The declines predicted in the fiscal year 1997 budget submission would have severely damaged the entire space science enterprise, and we appreciate the efforts that were made by Congress and the Administration to prevent this from happening.

### OFFICE OF SPACE SCIENCE

We are pleased to see a number of new starts included in the NASA science accounts. The Space Infrared Telescope Facility (SIRTF), in particular, has long been a major priority of the space science community, and we support its inclusion in the budget.

*Mission Operations and Data Analysis (MO&DA)*

Mission operations are a critical portion of the NASA Space Science budget, allowing us to reap the benefits of the high launch rate of recent years. Over the past several years, NASA has made substantial progress in cutting the costs of mission operations by removing redundancy, accepting slightly higher levels of risk, and taking advantage of modern data processing capabilities. We applaud these efforts and urge that NASA continue to seek out such efficiencies that will allow greatly increased returns from existing missions.

The Office of Space Science (OSS) has requested $507.4 million for Mission Operations and Data Analysis (MO&DA) activities in fiscal year 1998. This is a decrease of $75.9 million or 13 percent from fiscal year 1997. The proposed reduction occurs at a time when a number of new missions are being launched. By the end of fiscal year 1998, OSS plans to be flying 29 spacecraft compared to 18 at the beginning of fiscal year 1995. Moreover, NASA has proposed to cut MO&DA for Galileo by 54 percent in fiscal year 1998, MO&DA for the Compton Gamma Ray Laboratory by 62 percent, and MO&DA for the ISTP mission by 45 percent. MO&DA funding for small spacecraft would decline by almost 20 percent in fiscal year 1998.

Further cuts are anticipated in fiscal year 1999. The International Solar Terrestrial Probes (ISTP) program, for example, expects a further drop so that the decrease from fiscal year 1997 to fiscal year 1999 would be about 85 percent, despite

the fact that ISTP was originally presented to Congress as a comprehensive study of solar-terrestrial interactions through the upcoming solar maximum (2000–2001) of the 11-year solar cycle. The proposed reductions would impact scientists' ability to study this important event.

These large cuts in existing programs would be made to free up funds for new missions being launched in fiscal year 1998, such as AXAF and Cassini. While it obviously makes sense to phase out some missions so others can begin, we are concerned that NASA is not properly funding the science phases of its current missions and, through premature downsizing, is not securing full value of the taxpayer's investment.

In August 1994, in anticipation of an overall decline in the agency's budget, NASA cut most space science MO&DA budgets for fiscal year 1998 by about 50 percent. Even when the budgetary picture improved, funds were not restored. Since the 1994 cuts, the space science community has worked hard to increase science return per dollar by realizing efficiencies in operations. Operating costs for missions such as Voyager and Galileo have been cut by more than 50 percent, and recently Goddard Space Flight Center has worked to identify methods to cut the operations cost for the ISTP program by about 70 percent. Hubble Space Telescope was just serviced, and those savings will be reflected in the MO&DA line. Nevertheless, the cuts imposed in 1994 are so deep that efficiencies cannot nearly address them. We urge Congress to restore some of the fiscal year 1998 MO&DA cuts.

### OFFICE OF MISSION TO PLANET EARTH

The Office of Mission to Planet Earth (MtPE) has undergone dramatic restructuring over the past few years as the Earth Observing System (EOS) has been downsized from a 1990 program of large spacecraft carrying 30 instruments at a total cost of $17 billion, to the current 1994 version of 24 fundamental measurements provided by instruments carried on smaller spacecraft for a cost of $7.25 billion. Nevertheless, a number of further recommendations have recently been made regarding the Mission to Planet Earth program. We support this reexamination and the efforts to improve its scientific component.

Specifically, NASA's Earth System Science and Applications Advisory Committee (ESSAAC) has recommended: (1) the focus of EOSDIS be tightened, and Principal Investigators be given a greater role in data processing tasks; (2) all missions, starting with Chem-1, be reexamined; and (3) the balance within MtPE be shifted to substantially increase the current fraction of resources devoted to in-situ and process studies, modeling and analysis (R&A and mission-oriented science) to meet current strategic goals. Since 1994, MtPE R&A has been significantly reduced. As the total MtPE budget has increased during this period from $1.07 billion to $1.36 billion, R&A funding has declined from $178.9 million to $123.6 million. While it is important to develop and update the scientific basis for interpreting EOS measurements, this role is very different from that of R&A, and funding for the two is not exchangeable.

### OFFICE OF LIFE AND MICROGRAVITY SCIENCES AND APPLICATIONS

*Bion*

We are aware that there may again be efforts to cancel U.S. participation in the Bion 12 mission. The Bion missions are designed to study the biological effects of low gravity and the space radiation environment on the structure and function of individual physiological systems and the body as a whole. While the loss of muscle and bone mass during space flight is well documented, scientists tell us that neither the rate nor the specific mechanisms involved are well understood. The Bion missions have been peer-reviewed and approved by five independent panels over the past eight years, and we continue to support the use of merit review to determine how limited federal funds may most productively be spent for scientific research.

*Space Station Facilities and Utilization*

Both Life and Microgravity sciences are moving ahead into the Space Station era by virtue of the participation in the Shuttle-Mir program. Initial experiments in a number of disciplines have demonstrated the value of this early access to extended duration experiments that Mir affords. There has been excellent international cooperation and considerable mutual benefit at the scientific level, and this bodes well for interactions on the International Space Station. There is, however, a great deal of uncertainty as to the impact of the recent developments in the Mir and Space Station programs, and there is concern that utilization opportunities are being compromised, if not altogether lost.

CONCLUSION

As the budget allocations available for discretionary domestic spending continue to shrink, your subcommittee faces a very difficult task in choosing among the many agencies of vital importance to our nation which come under your jurisdiction. As you make these tough choices, AAU and NASULGC hope you will continue to invest in the premier scientific agencies whose work will improve the quality of life and knowledge base of future generations.

Thank you again for the opportunity to submit testimony for your consideration.

---

PREPARED STATEMENT OF THE AMERICAN SOCIETY FOR ENGINEERING EDUCATION ON BEHALF OF THE ENGINEERING EDUCATION COALITION

Mr. Chairman and Members of the Subcommittee: On behalf of the Engineering Education Coalition, we are pleased to provide our views on the fiscal year 1998 budget for the National Science Foundation. The Engineering Education Coalition is comprised of three organizations working together on behalf of engineering education and research: the National Society of Professional Engineers (NSPE), the National Association of State Universities and Land Grant Colleges (NASULGC), and the Engineering Deans Council of the American Society for Engineering Education (ASEE).[1]

Mr. Chairman, we greatly appreciate the strong leadership that you and your colleagues have shown on behalf of the National Science Foundation (NSF). We ask your continued support for the Foundation by providing a budget of $3.5 billion for NSF in fiscal year 1998, a 7.1 percent increase over the previous year. This $232 million increase would enable the Foundation to make up for inflation losses over the past three years and provide one percent real growth.

*Sustaining the science and engineering base.*—If the Congress intends to foster the nation's economic growth, it must ensure there is a strong base of scientific and engineering research and education to support technological development. The National Science Foundation both supports research across all scientific and engineering disciplines and stimulates partnerships among universities, industry and government to leverage the federal investment. Equally important, the Foundation assists in educating the engineers and scientists whose high-level skills are necessary for turning ideas into reality and keeping the nation globally competitive. Consequently, the Foundation is an important national resource whose activities must be sustained, especially in tight budget circumstances.

*Important new initiatives in research and education.*—As exciting new fields of study are created at the interface of disciplines—such as bioengineering or human factors research—NSF is at the forefront, with the flexibility to create new programs or reconfigure existing ones to accommodate promising areas. An excellent example of such leadership is the Foundation's plan in fiscal year 1998 to expand in its current efforts in computer systems engineering to a new Knowledge and Distributed Intelligence (KDI) initiative.

In our view, the networking and systems improvements that will come from this effort will not only create new research opportunities in all areas of engineering and science, but have the capacity to improve significantly the way we work, learn and use computers.

We also are pleased that the Foundation plans to expand its graduate traineeship program to encompass interdisciplinary work in education and research, including awards directed at the new KDI initiative. The special value of traineeships is that they enable the Foundation to target key national priority areas—such as environmentally conscious manufacturing—and to foster active faculty involvement in recruiting women, under-represented minority and disabled students. Traineeships also enable schools across the country to participate; although the program is highly-competitive and merit-based, smaller schools have been able to compete effectively by focusing their resources and demonstrating that their proposals dovetail with their school's strategic plan.

---

[1] Member organizations of the Engineering Education Coalition are:

The Engineering Deans Council of the American Society for Engineering Education (ASEE), the leadership organization of the more than 300 colleges of engineering in the United States and Canada.

The National Association of State Universities and Land Grant Colleges (NASULGC), a higher education association whose member public colleges and universities educate more than two million of the nation's students each year.

The National Society of Professional Engineers (NSPE), a professional society representing 70,000 engineers in industry, private practice, construction, government and education.

ENGINEERING RESEARCH

*What is basic engineering research*?—Engineering is a field of study and practice most commonly associated with application activities. However, there is another stage of engineering that is less visible, but serves as the basis upon which applications can take place. This stage, basic engineering research is the investigation of the systems and processes of the natural and constructed world. It is largely performed in the nation's universities.

NSF provides one-third of the total federal support of basic engineering research at academic institutions. While much of that support is through the Engineering Directorate, funding for engineering is also provided by the Computer and Information Science and Engineering (CISE) Directorate, the Division of Materials Research in the Mathematics and Physical Sciences Directorate and others.

A few areas of expanded opportunity in the fiscal year 1998 budget request for the Engineering Directorate demonstrate the leadership and breadth of NSF activities: Learning and Distributed Systems, Next Generation Biomedical Technologies, and Civil Infrastructure Systems.

*Learning and intelligence systems*.—In this area, the Engineering Directorate is focusing on such areas as systems and network research in optical and wireless technologies, and on methods for incorporating biological learning mechanisms into artificial systems. For example, one area of research aims to create molecular-sized machines for advanced computing. Another area of research would enable development of a system of structural materials (such as in a bridge) that could monitor a structure's condition, detect impending failure, and control damage.

*Next generation biomedical technologies*.—This research area integrates sensor-based microelectronic-mechanical systems with biological systems. Researchers are using their findings to develop such devices as an artificial retina that could be controlled by human neural systems and to design and build machines that have many of the characteristics of biological cells.

*Technologies that avoid environmental harm*.—The Engineering Directorate focuses its support in such fundamental areas of environmental research as transforming pollutants into benign substances, finding ways to produce fuels and useful chemicals from living organisms, and developing sensors to better track the movement of environmental contaminants. There is continuing emphasis in not only remediating pollution, but in creating processes and products that avoid pollution all together.

ENGINEERING EDUCATION

*Leadership in engineering education*.—Unlike many fields, most engineers pursue a professional career after earning a baccalaureate degree. For that reason, the quality and content of undergraduate education is particularly important to the engineering community.

Engineering education is undergoing great renewal and change. As a community, we are working to broaden the educational experience of our students to prepare them for engineering practice in a global environment. This means incorporating teamwork activities and design experience into the curriculum, as well as making our programs accessible to students from all backgrounds. We are also working to better integrate research findings and experiences into the curriculum. At the intellectual center of these efforts is the National Science Foundation's Engineering Directorate, which is stimulating and supporting these changes in engineering education. This is a vital, catalytic role that merits continued strong support.

The largest and potentially most significant undergraduate education activity conducted with Engineering Directorate funds is the Engineering Education Coalitions program. The coalitions are consortia of diverse engineering colleges whose purpose is to develop and disseminate coordinated innovations in curricula. Sixty engineering colleges currently participate in eight NSF-supported coalitions. Along with developing innovations in the curriculum, the coalitions are taking the best of their work and actively sharing it with the non-coalition engineering schools.

The Engineering Directorate has also shown leadership in helping engineering faculty members broaden their perspectives and incorporate their research findings and real world'' experiences into their teaching. The CAREER program recognizes young faculty members who integrate their research and teaching activities. The GOALI program provides opportunities for faculty members to spend time in industry, and vice-versa. Both of these Engineering Directorate innovations have been expanded to become Foundation-wide activities.

*The importance of NSF's undergraduate division*.—NSF also provides valuable support for undergraduate engineering education—particularly in laboratory improvement for instruction—through the undergraduate division of the Education

and Human Resources (EHR) Directorate. The Division also provides important support for the improvement of lower division courses in such areas as physics and chemistry. These programs are important to all engineering and science disciplines, as well as to the nation's future high school science and mathematics teachers. We urge the Congress to provide the $99 million requested for the Undergraduate Division in fiscal year 1997.

In sum, the Coalition For Engineering Education urges the Subcommittee to provide the National Science Foundation with at least $3.5 billion for fiscal year 1998. Strong financial support for the Foundation is a vital, front-end investment in the nation's economic future. Thank you for your consideration of our views.

---

## MISCELLANEOUS

### PREPARED STATEMENT OF THE AMERICAN SOCIETY FOR MICROBIOLOGY

The American Society for Microbiology (ASM), the largest single life science organization in the world, comprising more than 42,000 members, welcomes the opportunity to submit written testimony to the Senate Appropriations Subcommittee on VA, HUD and Independent Agencies and provide comments and recommendations for the fiscal year 1998 appropriations for the scientific research programs within the Environmental Protection Agency (EPA) and the National Science Foundation (NSF).

The ASM is made up of scientists who work in academic, governmental and industrial institutions worldwide. Microbiologists are involved in research on problems related to human health, the environment, agriculture, and energy. The mission of ASM is to enhance the science of microbiology to gain a better understanding of basic life processes, and to promote the application of this knowledge for improved health, and for economic and environmental well being.

#### ENVIRONMENTAL PROTECTION AGENCY

The Environmental Protection Agency's scientific research and development programs are of interest to many of ASM's members who work throughout the fields of applied and environmental microbiology. Research on environmental microbiology is essential for maintaining air, water, and soil quality; for assuring the safety of potable water supplies; and for providing safe means for waste disposal. Support of applied research in the field of environmental microbiology can lead to enhanced environmental quality and help protect human health. The ASM believes that sound public policy for environmental protection depends upon adequately funded programs of intramural and extramural research based on a system of peer review to assure that support is awarded to research programs having both quality and relevance.

The Administration's overall budget request for the Environmental Protection Agency (EPA) in fiscal year 1998 is $7.6 billion, an increase of $846 million over last year's appropriation. The request includes $555 million for the EPA's Research and Development programs, about $51 million more than the enacted fiscal year 1997 funding level. Our testimony will focus on the EPA's Office of Research and Development programs, including the Science to Achieve Results (STAR) program, the Graduate Environmental Fellowship Program, the Safe Drinking Water research program, interagency research programs, and the EPA's peer review process.

Last September, the General Accounting Office report, Peer Review, *EPA's Implementation Remains Uneven*, concluded that peer review practices within the EPA were inconsistent. Some of the EPA's divisions followed adequate peer review procedures while others had little or no peer review for programs that required it. The environmental research programs the ASM is testifying about fall within the EPA's Office of Research and Development (ORD). According to the GAO report the ORD "has used peer review for obtaining critical evaluations of certain work products for more than 20 years." The report also stated, however, that the EPA's peer review process could be improved even within the ORD. The EPA has taken action to strengthen the peer review process throughout the agency. The ASM supports efforts to ensure that the highest scientific standards are adhered to in all the federal government's scientific research and development programs to produce sound, reliable science for the nation's benefit.

An important extramural research initiative, the EPA's Science to Achieve Results program, is targeted to receive $115 million, a 21 percent increase over last year's budget of $95 million. This program funds important environmental research proposals from scientists outside the federal government and is a valuable resource for the EPA in finding solutions to many of the complex environmental problems we

face today. Grants made under the STAR program last from two to three years and provide about $150,000 of scientific support per grant year. In 1996, the STAR program funded 195 new grants in 45 states and 136 institutions totaling $96.5 million. Additionally, the STAR program works with many other Federal agencies including the National Science Foundation, Department of Energy (DOE), Office of Naval Research (ONR), and the National Oceanic and Atmospheric Administration (NOAA). Last year 29 STAR grants were made by agencies, other than the EPA, using their own funds. Although it is a high quality program that merits full funding of the Administration's request, the ASM is concerned that the STAR program has focused on environmental chemistry problems and has not adequately funded areas of environmental research with a focus on environmental microbiology. We urge the Congress to fund the STAR program and to insert language that mandates the EPA to take steps to ensure the adequate incorporation and funding of projects and fellowships related to microbiological aspects of environmental quality, especially those having direct impacts on human health such as the microbiological quality of water. In this regard, the ASM also requests that the Congress instruct the EPA to work with the National Institute of Environmental Health Sciences (NIEHS) to develop research activities and fellowships that will lead to safer potable waters.

Within the STAR program, the Administration's budget request includes $15 million in fiscal year 1998, for the Graduate Environmental Fellowship Program, a $7 million increase over last year. This is an effort to restore the vital funds deleted by Congress last year. The EPA's Graduate Environmental Fellowship Program is one of the many initiatives the federal government must fully support to ensure that we are prepared to answer the complex scientific questions of the future. Both the public and private sectors will need a steady stream of well trained environmental specialists. The fellowship program encourages promising environmental graduate students to pursue careers in environmentally related fields. The ASM supports the Administration's funding request for this program and encourages the EPA to fund environmental microbiology fellowships in such research areas as bioremediation and the detection of pathogenic microorganisms in potable water supplies and the disinfection of such waters. These fellowships will provide adequate human resources to conduct environmental microbiological research and apply the results of that research to improving environmental quality. Absence of such support will leave a shortage of qualified individuals to assist in the prevention and remediation of environmental problems.

With the President's signing of the Safe Drinking Water Act and the Food Safety Act into law this past year, the Administration has proposed increasing EPA's funding by $35 million for the implementation of these new laws. However, the Safe Drinking Water research program would experience a $3.5 million decrease from fiscal year 1997 to bring the funding level to $35.9 million in fiscal year 1998. This is a result of last year's Congressional earmarks which added $5 million to the Safe Drinking Water budget for specific programs. The EPA did not request earmarked funds this year. The net budget result is a decrease for fiscal year 1998 in the Safe Drinking Water research program, unless Congress provides the additional funds.

One of the EPA's highest priorities for the Safe Drinking Water research program is to establish standards to protect human health from microbiological contaminants and disinfectant/disinfection byproducts (M–DBP). The ASM believes it is imperative to provide sound reliable science to support the EPA in its effort to promulgate responsible regulations to protect human health from the risks associated with such contaminants. For example, much research needs to be conducted to control the outbreaks of human exposure to the protozoan Cryptosporidium in our drinking water. To date, hundreds of people have died and many thousands have become ill as a result of exposure to this potentially lethal microbe. In 1993, 400,000 people became infected with Cryptosporidium from Milwaukee's water supply. The ASM urges Congress to increase funding for drinking water research in this area. There are still many questions to be answered about the ways in which to ensure the safety of the nation's drinking water supply. It is essential that the EPA in conjunction with the NIEHS conduct extensive research on the factors that lead to outbreaks of pathogens, such as Cryptosporidium, in our water supply. The EPA must develop advance warning systems that increase protection of public health and enable the nation to avoid future incidents such as the devastating Cryptosporidium outbreak in Milwaukee that was disseminated via the municipal potable water supply. The protection of the American people from the potential health risks of exposure to microbial contaminants in their drinking water is reason enough to increase funding for this program.

The ASM supports the many joint research programs supported by the EPA. Three of these programs, currently underway, are the Joint EPA/NSF Partnership for Environmental Research, EPA/NASA Joint Program on Ecosystem Restoration,

and the EPA/DOE/NSF/ONR Joint Program on Bioremediation. The ASM urges Congress to continue funding for interagency research programs which seek to find cross-disciplinary solutions to the nation's scientific environmental problems.

NATIONAL SCIENCE FOUNDATION

The ASM welcomes the opportunity to comment on the Administration's fiscal year 1998 budget request for the National Science Foundation. The NSF's long standing record in fostering basic research has provided the critical foundation for advancing the health of the nation's people, environment and economy. Federal support for the NSF is an investment that creates and strengthens the economic growth of the United States and allows the United States to remain competitive in a global market. The President's fiscal year 1998 budget request for the NSF of $3.367 billion is only 3 percent or $97 million, more than was appropriated in fiscal year 1997. Based on the rate of inflation, which is approximately 2.6 percent, the NSF would be level funded for the next fiscal year under the President's request. At the same time, our global competitors have made commitments to increase funding for science and technology. For example, Japan has committed to increase its support for basic research over the next five years by 50 percent. The United States may be in danger of losing its lead in science and technology as the 21st century approaches if it does not increase federal funding for basic research.

The ASM, a member of the Coalition for National Science Funding (CNSF) and its steering committee, supports the CNSF's recommendation of $3.5 billion for the NSF in fiscal year 1998, an increase of 7.1 percent over the fiscal year 1997 appropriation. NSF Director Neal Lane stated before this Subcommittee that the NSF's original budget request was $3.5 billion, a funding level that would allow the United States to remain a world leader in the area of science and technology. The ASM is deeply concerned with the inadequacy of the President's NSF budget request and its impact on the NSF's ability to meet the scientific challenges of the 21st century. The ASM urges this Subcommittee to support the CNSF's recommendation of $3.5 billion for the NSF in fiscal year 1998.

New initiatives within the NSF reflect the partnership between research and education and the need to encourage research in new areas of science. The ASM applauds NSF's proactive stance to promote research across disciplines that will lead to the development of information technologies in order to unify experimental and theoretical concepts. A program called Knowledge and Distributed Intelligence (KDI). KDI is an effort designed to realize the full potential of emerging technologies in communications, computing and networking and revolutionize science and engineering and the way people learn and work. The new Integrative Graduate Education and Research Training (IGERT) initiative will spearhead the need to provide graduate students with multi-disciplinary research and educational training opportunities. Graduate students will benefit from IGERT through broader training and greater flexibility in attaining future employment. A focused program begun in fiscal year 1997, Life in Extreme Environments (LExEN), is a critical component in understanding the interplay between microorganisms, plants and animals in earth's environment and how humans impact the microbial world. The study of life in extreme environments can provide important new insights into how microorganisms evolve, and the extent their adaptive mechanisms allow them to function in their environments. Once researchers are able to understand these mechanisms, they will be able to employ them in other capacities such as in bioprocessing and bioremediation.

Members of the ASM, whose activities include research concerned with the impact of microorganisms on the well-being of humans, animals, plants, and the environment, are very supportive of NSF's increased focus on microbial biology and the diversity of microorganisms, an initiative begun in fiscal year 1996 under the auspices of the NSF's Directorate for Biological Sciences (BIO). For years, research efforts have concentrated on the study of microbes in human and animal health. The unknown microbial biomass provides opportunities to discover new knowledge about microbial life-forms and their potential application in industry, medicine and agriculture. In addition, microbiological research continues to provide the foundation for today's advances in biotechnology. These advances are based on understanding the molecular basis of microbial physiology and the genetics of viral, yeast and bacterial plasmid vectors. Future accomplishments and their application to increased agricultural productivity (an important by-product of biotechnology) will not be possible without NSF funded basic research.

The NSF is one of the few government agencies that funds basic research. Leadership by the United States in opening new avenues of science and technology will be lost without sufficient funding for basic research. Most of today's scientific

achievements in areas such as global warming, bioremediation of oil spills and industrial pollution, new antibiotics and drugs, biopesticides, and gene therapy, are the outgrowths of basic research. The United States is faced today with many challenges that can be met only through the potential of basic research to generate the crucial new scientific knowledge required to advance the welfare of all people worldwide.

New knowledge is required in order to address a broad range of societal problems including those inherent in the emergence of antibiotic resistant bacteria, new infectious diseases facing the human population and the agricultural community, and environmental pollution. The NSF plays a critical role in furthering our basic understanding of molecular and cellular processes. NSF-supported research can unravel the basic, molecular complexities of many health issues including cancer, aging, developmental abnormalities, and the body's immune response. There is a long history of outstanding achievements by NSF-funded investigators, namely:

—DNA in living organisms is the blueprint for making all the organism's protein. A large portion of DNA, known as "junk DNA," in most organisms is not used for proteins and appeared for a long time to have no function. Recently, however, researchers have determined that junk DNA has a very important function. In certain situations, it is involved in assuring that, when a cell divides into two daughter cells, two copies of each chromosome find their way into each daughter cell. This is the first time researchers have identified a function for junk DNA and it may have far-reaching impacts. For instance, developmental abnormalities, such as Down Syndrome in humans, are caused by the presence of more than two copies of one of the chromosomes. Researchers can now examine the role of junk DNA and define ways to avoid such abnormalities.

—Researchers supported by NSF have identified a gene in a common weed that allows the plant to extract iron from soil whenever it is starved for the essential nutrient. This discovery has important implications for both crop yields and human nutrition. Iron deficiency is the leading nutritional disorder in people worldwide. Most people get their daily iron supply in the form of plant foods. By understanding how plants absorb iron, researchers could develop crops that are more efficient users of iron in soil and richer sources of iron in foods.

Plants have a remarkable capacity to filter or metabolize large amounts of particular pollutants. Scientists have used this capacity to clean up contaminated soils, a process known as phytoremediation. Now, with genetic engineering, it is possible to engineer "super-remediators." NSF-supported scientists have isolated and transferred a bacterial gene that converts the ionic form of mercury into a less toxic metallic form. The resulting plants can survive in contaminated soil with a relatively high level of mercury. Studies to expand this research to other toxic heavy metals are underway.

Investing in basic research is an investment in the future. The ASM urges this Subcommittee to support a budget of $3.5 billion, a 7.1 percent increase, for the NSF in fiscal year 1998.

Mr. Chairman, on behalf of the more than 42,000 members of the American Society for Microbiology, thank you for the opportunity to testify on these important programs. I would be pleased to respond to questions and to provide any additional information that you may need.

---

## PREPARED STATEMENT ON BEHALF OF THE GOLDEN GATE UNIVERSITY, MONTEREY, CA

Mr. Chairman, members of the Subcommittee, I thank you for the opportunity to submit this statement on behalf of Golden Gate University and its Agriculture Business Resource Center located in Monterey, California. The Agriculture Business Resource Center is part of the Monterey campus of Golden Gate University, and has been in existence for twenty-six years.

Although degree programs are, and have been, the traditional focus of Golden Gate, the Monterey campus has significantly broadened its focus to include training programs which are targeted at specific industries. Most notable among these programs is one oriented toward the agriculture industry, created in response to the demands of various growers, processors and shippers which are part of California's $22 billion per year agriculture industry.

Unlike many industries, the agriculture industry has traditionally been underrepresented in training programs except for ad-hoc workshops. In addition, the industry has an unusually inflexible schedule which necessitates innovative program design and delivery. For example, many Salinas Valley growers and processors move their operations and employees to Yuma, Arizona in the winter to ensure year-round

production. Golden Gate has responded by transporting instructors to the Yuma sites so that employees can be trained without interruption to production cycles.

Mr. Chairman, this subcommittee is exceedingly familiar with the importance of the agriculture industry to the U.S. economy, and the positive trade balances the industry has produced over the years. California has played a key role within the industry, leading all states in the production of more than 75 crop and livestock commodities. In fact, California's agriculture industry produces a total of 250 different crop and livestock commodities which generate some $22 billion in direct production, and another $70 billion in related activity. In 1994, the state produced exports of $12 billion which represented 15 percent of all U.S. agriculture exports. That trend continues today as exports are holding to record proportions.

The response to the Golden Gate Agriculture Business Resource Center has been overwhelming. In large part, this response is driven by the export potential for expanding the sales of California agriculture products into existing and developing markets overseas. For example, the Pacific rim countries continue to provide expanding market opportunities for California agriculture products. Additionally, the traditional European markets have further opened to U.S. products, as have the components of the former Soviet bloc. In the case of these "new republics," shipments of fresh products and seeds are increasing at a dramatic pace.

In the domestic U.S. market, consumer tastes have changed as people have become more health-conscious and demanded more fresh vegetables and fruits in their diets. In addition, so-called "convenience" items continue to be produced on a broader scale to accommodate the needs of middle class families where two-earner households are prevalent.

Each of these market demands—rising market expectations in other countries, domestic expectations of more fresh vegetables and more convenience foods—are welcomed in the grower, processing and shipper communities in California. But those demands which come to the growing regions force changes and new needs within the industry.

Perhaps the greatest general need which accompanies these growing market demands is the requirement for companies to have a skilled, permanent, year-round workforce so as to increase job retention. This way, all growers, processors and shippers will be better able to meet growing domestic and export demands. At the same time, from the employee perspective, training provides employees with enhanced skills and knowledge levels which, in turn, allow them to advance within their companies.

The need for a skilled, permanent and year-round workforce is very important for companies to remain competitive in an industry which is being driven in many new directions. As you know, for example, foreign competition is always a threat due, in large part, to lower operating costs. Nevertheless, Monterey County, California, as an example, has been able to compete with Mexico and Latin America in the fresh fruit and vegetable markets as these countries have not been able to distribute fresh value-added products effectively in the U.S. Rather, the value-added products exported to the U.S. from these areas remain canned and frozen.

A large part of the success in the case noted above is rooted in the development and adoption of new technologies which allow for light processing and packaging of vegetables. This facilitates the ability of the Monterey County growers and processors to better compete with lower cost rivals. To remain competitive, however, the various technologies must be continually updated and adapted so that cost-saving production processes are enhanced.

An excellent example of the value of enhanced production can be found in the value-added sector of the agriculture industry. This sector, which came into existence in the 1960's, is now one of the strongest segments in California's agriculture industry in general, and that of Monterey County in particular. Over the years, since its inception, this sector has been enhanced in great leaps.

The highly specialized, value-added sector requires in-house company laboratories, research and development staff and equipment, the latest automated packaging equipment, sophisticated and modern facilities and a highly skilled workforce. This means that agriculture companies must train and retrain employees to meet the challenges of new and expanding technology bases.

It is the need for increased skill levels which has motivated the various companies in the Monterey County agriculture industry to seek ways to develop employee skills on a continuing basis. As mentioned earlier, the companies need a skilled, year-round and permanent workforce to meet market demands. In providing opportunities for employees to enhance their skills, the company ensures continuity of its workforce because employees can be promoted from within.

The Golden Gate Agriculture Business Resource Center has designed and is carrying out a broad-scope program which addresses the needs of the agriculture compa-

nies and employees in the Monterey County growing regions. With its high-quality, flexible approach, the Center's programs cover all levels of employees in a way which does not interfere with production schedules of the individual companies.

Golden Gate implements its program through various customized curricula designed to address the training needs of individual companies. Companies benefit from employees who are trained in the latest production techniques, product distribution methods, computer technology, refrigeration engineering and a range of other subject areas which are important to the agriculture industry. The employees benefit from programs carried out at work sites which eliminates their having to take time off to enroll in traditional academic programs.

The range of the Agriculture Center program crosses all skill levels, allowing for workers with low levels of education to be trained in ways which facilitate advancement. It is not uncommon to see lesser-educated workers who have moved to supervisory positions from jobs in the growing fields. The program also allows for the identification of people coming out of the welfare system who are potentially suited for agriculture industry employment. If, for example, a company has a need for entry-level workers, the Golden Gate Center will design a regimen to identify and train such personnel so that they are in a position to fit into the company system.

A large portion of the success of the Golden Gate program is based on a clearinghouse system which monitors the educational and training needs of the agriculture industry, particularly in the Monterey County area. Those needs are translated into high quality training programs which utilize state-of-the-art methods and technology for delivery. In this sense, the Agriculture Business Resource Center is part of a long-range, comprehensive vision to provide skills necessary for employees seeking job advancement, displaced workers who need marketable skills and young people looking for alternatives to traditional college degrees. In each case, the very important agriculture sector of California's economy will benefit, particularly that portion of the industry in the Monterey County growing regions.

Mr. Chairman, as the demands for diversified training on the part of the Central Valley agriculture industry have grown, Golden Gate has adapted and expanded its programs accordingly. As part of the evolution, Golden Gate has dedicated two buildings, located at Fort Ord, California, which were acquired through base closure and re-use development activities.

The buildings and the surrounding area are in relatively good condition though in need of renovation. Golden Gate's plan is to locate the Agriculture Business Resource Center in these two buildings, given their proximity to the Central Valley California growing regions. From this headquarters site, the entire area can be serviced through mobile classrooms, distance learning and on-site training. Further, the site will allow for additional program development in the future. The total cost of the entire project is $2 million which includes building renovation and internal resource development. Golden Gate will operate the Center with its own resources.

Mr. Chairman, California is the world's sixth largest exporter of agricultural products. For each $1 billion in export sales, nearly 30,000 jobs are created. Monterey County is the top vegetable producing county in the nation, with the agriculture industry employing 25 percent of the county labor force. All of this is to say that there is significant opportunity for the California agriculture industry to expand and further enhance its role in the U.S. economy.

The Golden Gate Agriculture Business Resource Center, based on existing industry needs and demands, can be a catalyst to move this growth forward. In so doing, we will strengthen the state and local tax and employment bases many times over the level of this modest grant assistance request. I ask that you consider this request as one that is good for the U.S. agriculture industry, and can be a model for other states in the future.

Thank you.

# LIST OF WITNESSES, COMMUNICATIONS, AND PREPARED STATEMENTS


Page

A'zera, Veronica, national legislative director, AMVETS, prepared statement ..... 723
American Association of Homes and Services for the Aging, prepared statement ..... 827
American Association of Retired Persons, prepared statement ..... 762
American Chemical Society, prepared statement ..... 880
American Heart Association, prepared statement ..... 737
American Network of Community Options and Resources, prepared statement ..... 837
American Public Power Association, prepared statement ..... 858
American Society for Engineering Education on behalf of the Engineering Education Coalition, prepared statement ..... 921
American Society for Microbiology, prepared statement ..... 923
Anderson, Julie, Acting Associate Administrator, Office of Congressional and Legislative Affairs, Environmental Protection Agency ..... 247
Arc, prepared statement ..... 834
Armstrong, Spence M., Associate Administrator for Human Resources and Education, National Aeronautics and Space Administration ..... 601
Association of National Estuary Programs, prepared statement ..... 864
Association of State Drinking Water Administrators, prepared statement ..... 883

Backhus, Stephen P., prepared statement ..... 513
Bauer, Roger, Vice Chairman, Board of Veterans' Appeals, Office of the Secretary, Department of Veterans Affairs ..... 511
Bennett, Hon. Robert F., U.S. Senator from Utah, questions submitted by ..... 408
Berenson, Aimee R., director of Government affairs, AIDS Action Council, prepared statement ..... 806
Blum, Jared O., president, Polyisocyanurate Insulation Manufacturers Association, Washington, DC, prepared statement ..... 859
Bond, Hon. Christopher S., U.S. Senator from Missouri:
Prepared statement ..... 2
Questions submitted by ..... 23, 44, 162, 191, 221, 351, 445, 489, 560, 645, 706
Bordogna, Dr. Joseph, Acting Deputy Director, National Science Foundation .. 457
Bowen, Jerry, Director, National Cemetery System, Office of the Secretary, Department of Veterans Affairs ..... 511
Boxer, Hon. Barbara, U.S. Senator from California, prepared statement ..... 626
Boyd, Merle, acting principal, chief, Sac and Fox Nation, prepared statement ..... 781
Brickhouse, Eugene, Assistant Secretary for Human Resources and Administration, Office of the Secretary, Department of Veterans Affairs ..... 511
Brown, Ann, Chairman, Consumer Product Safety Commission ..... 155
Prepared statement ..... 158
Brown, Hon. Jesse, Secretary, Office of the Secretary, Department of Veterans Affairs ..... 511
Prepared statement ..... 536
Brown, Lynne P., associate vice president for Government and community relations, New York University Center for Cognition, Learning, Emotion and Memory, prepared statement ..... 815
Browner, Carol M., Administrator, Environmental Protection Agency ..... 247
Prepared statement ..... 257
Burns, Hon. Conrad, U.S. Senator from Montana, prepared statement ..... 12

Page

Bye, Dr. Raymond E., Jr., associate vice president for research, Florida State University, prepared statement ..... 917
Byrne, Leslie L., Director and Special Assistant to the President, Office of Consumer Affairs, Department of Health and Human Services ..... 169
Prepared statement ..... 170

Cagey, Henry M., chairman, Lummi Indian Nation, prepared statement ..... 778
California Industry and Government Coalition on PM–10/PM–2.5, prepared statement ..... 882
Calkins, Charles L., national executive secretary, Fleet Reserve Association, prepared statement ..... 732
Campbell, Hon. Ben Nighthorse, U.S. Senator from Colorado:
Prepared statement ..... 604
Questions submitted by ..... 235
Campion, Raymond J., Ph.D., president, Mickey Leland National Urban Air Toxics Research Center, prepared statement ..... 849
Cannon, Jonathan Z., General Counsel, Environmental Protection Agency ..... 247
Carozza, Shirley C., Deputy Assistant Secretary for Budget, Office of the Secretary, Department of Veterans Affairs ..... 511
Catlett, D. Mark, Assistant Secretary for Management, Office of the Secretary, Department of Veterans Affairs ..... 511
Charvat, Steven, CEM, NCCEM president, emergency management coordinator, city of Phoenix, AZ, prepared statement ..... 896
Christensen, Michael D., Associate Administrator for Headquarters Operations, National Aeronautics and Space Administration ..... 601
Ciaccia, Julius, Jr., president, Association of Metropolitan Water Agencies, prepared statement ..... 855
City of Miami Beach, FL, prepared statement ..... 846
City of Newark, NJ, prepared statement ..... 811
Cole, Dr. Mary Louise, president of ICARE Bay Point Schools, prepared statement ..... 825
Consortium for Citizens With Disabilities Housing Task Force, prepared statement ..... 830
Coronado, Gil, Director, Selective Service System ..... 145
Prepared statement ..... 146
Craig, Elizabeth, Director, Budget Division, Environmental Protection Agency ..... 247
Craig, Hon. Larry, U.S. Senator from Idaho, questions submitted by ..... 236, 403
Cunninghame, Donna, Chief Financial Officer, Corporation for National and Community Service ..... 81
Cuomo, Andrew, Secretary, Department of Housing and Urban Development ..... 665
Prepared statement ..... 674

D'Amours, Norman E., Chairman, National Credit Union Administration ..... 63
Prepared statement ..... 64
DeHan, Rodney, ground water manager, Florida Department of Environmental Regulations and Ground Water Protection Council, prepared statement ..... 842
DiPasquale, Nicholas A., president, Solid Waste Management Officials, prepared statement ..... 844
Dola, Steven, Deputy Assistant Secretary for Management and Budget, Office of the Assistant Secretary of the Army for Civil Works, Cemeterial Expenses, Army, Department of Defense—Civil ..... 139
Prepared statement ..... 140
Duffy, Dennis, Assistant Secretary for Policy and Planning, Office of the Secretary, Department of Veterans Affairs ..... 511

Elzanowski, Dr. Anjay, the Humane Society of the United States [HSUS], prepared statement ..... 899

Fields, Timothy, Acting Deputy Assistant Administrator, Office of Solid Waste and Emergency Response, Environmental Protection Agency ..... 247
Fox, Dr. Peter, Arizona State University and Margaret Nellor, county sanitation districts of Los Angeles County, prepared statement ..... 862
Fox, J. Charles, Associate Administrator, Office of Reinvention, Environmental Protection Agency ..... 247

Page

Frank, Billy, Jr., chairman, Northwest Indian Fisheries Commission, prepared statement ..... 886

Gall, Mary Sheila, Commissioner, Consumer Product Safety Commission ..... 155
Prepared statement ..... 162
Gardiner, David, Assistant Administrator, Office of Policy, Planning and Evaluation, Environmental Protection Agency ..... 247
Gibbons, John, Director, Office of Science and Technology Policy, Executive Office of the President ..... 433
Prepared statement ..... 438
Glenn, Gary A., president, Massachusetts Foundation for Excellence in Marine and Polymer Sciences, prepared statement ..... 872
Golden Gate University, Monterey, CA, prepared statement ..... 926
Goldin, Daniel S., Administrator, National Aeronautics and Space Administration ..... 601
Prepared statement ..... 605
Goldman, Lynn R., Assistant Administrator, Office of Prevention, Pesticides and Toxic Substances, Environmental Protection Agency ..... 247
Gorosh, Kathye, project director, the CORE Center, prepared statement ..... 760
Gross, Robert L., Inspector General, National Aeronautics and Space Administration ..... 601

Hansen, Fred, Deputy Administrator, Environmental Protection Agency ..... 247
Harkin, Hon. Tom, U.S. Senator from Iowa, questions submitted by ..... 426, 594
Harper, Sallyanne, Acting Chief Financial Officer, Environmental Protection Agency ..... 247
Hawke, John H., Jr., Under Secretary of Treasury for Domestic Affairs, Community Development Financial Institutions, Department of the Treasury ..... 27
Prepared statement ..... 29
Herman, Steve, Assistant Administrator, Office of Enforcement and Compliance Assurance, Environmental Protection Agency ..... 247
Herrling, Gen. John P., U.S. Army (retired), Secretary, American Battle Monuments Commission ..... 121
Prepared statement ..... 123
Huggett, Robert J., Assistant Administrator, Office of Research and Development, Environmental Protection Agency ..... 247
Huntress, Wesley T., Associate Administrator for Space Science, National Aeronautics and Space Administration ..... 601

Iarossi, Brad, P.E., legislative officer, Association of State Dam Safety Officials, prepared statement ..... 889

Jennings, Hon. Ed, mayor, city of Gainesville, FL, prepared statement ..... 876
Johnson, Gary D., Chief Financial Officer, Federal Emergency Management Agency ..... 193
Johnson, Jacqueline, chairperson, National American Indian Housing Council, prepared statement ..... 804
Jollivette, Cyrus M., vice president for Government relations, Miami University, prepared statement ..... 756
Jurado, Kathy E., Assistant Secretary for Public and Intergovernmental Affairs, Office of the Secretary, Department of Veterans Affairs ..... 511

Keener, Mary Lou, General Counsel, Office of the Secretary, Department of Veterans Affairs ..... 511
Kizer, Kenneth W., M.D., M.P.H., Under Secretary for Health, Office of the Secretary, Department of Veterans Affairs ..... 511
Knight, George, Executive Director, Neighborhood Reinvestment Corporation ..... 63
Prepared statement ..... 68
Koelemij, John, past president, National Association of Home Builders, prepared statement ..... 750

Lane, Jay, director, program planning and development, Laconia Housing and Redevelopment Authority, prepared statement ..... 740
Lane, Jay, president, Jay Lane Associates, prepared statement ..... 758
Lane, Neal, Director, National Science Foundation ..... 457
Prepared statement ..... 458

Page

Langrigan, Philip, EPA Consultant, Children's Office, Environmental Protection Agency ..... 247
Larson, Larry A., executive director, Association of State Floodplain Managers, prepared statement ..... 895
Lautenberg, Hon. Frank R., U.S. Senator from New Jersey, questions submitted by ..... 422
Lawrence, Jeff, Associate Administrator for Legislative Affairs, National Aeronautics and Space Administration ..... 601
Leahy, Hon. Patrick J., U.S. Senator from Vermont, questions submitted by ..... 412
Lemons, Stephen L., Acting Under Secretary for Benefits, Office of the Secretary, Department of Veterans Affairs ..... 511
Local Initiatives Support Corp., prepared statement ..... 769
Lower, Dennis E., executive director, University Heights Science Park, Newark, NJ:
  Biographical sketch ..... 822
  Prepared statement ..... 820

Mason, Dr. Robert J., director, Environmental Lung Center, National Jewish Medical and Research Center, prepared statement ..... 873
Mauderly, Joe L., senior scientist and director of external affairs, Lovelace Respiratory Research Institute, prepared statement ..... 877
McCabe, W. Michael, Regional Administrator, EPA Region III, Environmental Protection Agency ..... 247
McEwen, Bruce S., Ph.D., for the Society for Neuroscience, prepared statement ..... 913
McGinty, Kathleen, Chair, Council on Environmental Quality and Office of Environmental Quality, Executive Office of the President ..... 1
Merriman, William, Deputy Inspector General, Office of the Secretary, Department of Veterans Affairs ..... 511
Mikulski, Hon. Barbara A., U.S. Senator from Maryland:
  Prepared statement..... 156, 533
  Questions submitted by ..... 78, 127, 238, 593
Moore, Thomas H., Vice Chairman, Consumer Product Safety Commission ..... 155
Moy, Kirsten, Director, Community Development Financial Institutions, Department of the Treasury ..... 27
  Prepared statement ..... 32
Mullen, James H., Jr., vice president for student affairs, Trinity College, prepared statement ..... 764

Nasif, Teresa, Director, Consumer Information Center, General Services Administration ..... 165
  Prepared statement ..... 166
National Council of State Housing Agencies on behalf of the Nation's State Housing Finance Agencies, prepared statement ..... 753
Nebeker, Hon. Frank, Chief Judge, U.S. Court of Veterans Appeals ..... 109
  Prepared statement ..... 110
Nichols, Mary, Assistant Administrator, Office of Air and Radiation, Environmental Protection Agency ..... 247
Nicogossian, Arnauld E., Acting Associate Administrator for Life and Microgravity Sciences and Applications, National Aeronautics and Space Administration ..... 601
Nitze, William A., Assistant Administrator, Office of International Activities, Environmental Protection Agency ..... 247

O'Brien, Terrence J., president, Metropolitan Water Reclamation District of Greater Chicago, prepared statement ..... 875
Olivares, Dennis, president, International Federation of Professional and Technical Engineers, Local 29, prepared statement ..... 902
Opfer, George, Inspector General, Federal Emergency Management Agency ..... 193

Paz, Harold L., M.D., dean, UMDNJ-Robert Wood Johnson Medical School, prepared statement ..... 809
Peabody, John N., Jr., president, American Federation of Government Employees Local 1983, prepared statement ..... 892
Perciasepe, Robert, Assistant Administrator, Office of Water, Environmental Protection Agency ..... 247

Page

Pesachowitz, Al, Assistant Administrator, Office of Administration and Resources Management, Environmental Protection Agency ..... 247
Peterson, Malcolm L., Comptroller, National Aeronautics and Space Administration ..... 601
Pings, Cornelius J., Ph.D., president, Association of American Universities, prepared statement ..... 918

Quickel, Kenneth E., Jr., M.D., president, Joslin Diabetes Center, Boston, MA and Blake E. Waterhouse, M.D., CEO, Straub Clinic and Hospital, Honolulu, HI, prepared statement ..... 735

Rhea, Larry D., deputy director of legislative affairs, Non Commissioned Officers Association of the United States of America [NCOA], prepared statement ..... 725

Sandy, Mary L., chair, National Council of Space Grant Directors, prepared statement ..... 907
Schlender, James H., executive administrator, Great Lakes Indian Fish and Wildlife Commission, prepared statement ..... 869
Schmoll, Kathryn S., Comptroller, Environmental Protection Agency ..... 247
Schumacher, John D., Associate Administrator for External Relations, National Aeronautics and Space Administration ..... 601
Scott, Edward, Assistant Secretary for Congressional Affairs, Office of the Secretary, Department of Veterans Affairs ..... 511
Shelby, Hon. Richard C., U.S. Senator from Alabama, questions submitted by ..... 399
Socolar, Milton J., prepared statement ..... 525
SRI International, prepared statement ..... 909
State and Territorial Air Pollution Program Administrators and the Association of Local Air Pollution Control Officials, prepared statement ..... 852
Stevens, Hon. Ted, U.S. Senator from Alaska, questions submitted by ..... 125
Sullivan, John H., deputy executive director, American Water Works Association, prepared statement ..... 865
Surratt, Rick, assistant national legislative director, Disabled American Veterans, prepared statement ..... 728
Suttie, John W., Ph.D., president, Federation of American Societies for Experimental Biology, prepared statement ..... 915

Tinsley, Nikki L., Acting Inspector General, Environmental Protection Agency ..... 247
Townsend, William F., Acting Associate Administrator for Mission to Planet Earth, National Aeronautics and Space Administration ..... 601
Trafton, Wilbur C., Asssociate Administrator for Space Flight, National Aeronautics and Space Administration ..... 601

U.S. Conference of Mayors, the National Association of Counties, the Association of Local Housing Finance Agencies, and the National Community Development Association, prepared statement ..... 801
Uhlig, Mary Louise, Acting Associate Administrator, Office of Regional Operations and State/Local Relations, Environmental Protection Agency ..... 247
University of California at San Diego's Scripps Institution of Oceanography and Columbia University's Lamont-Doherty Earth Observatory, prepared statement ..... 898
University of Tulsa, prepared statement ..... 813

Water Environment Research Foundation, prepared statement ..... 881
Weinstein, Michael, president, AIDS Healthcare Foundation, prepared statement ..... 817
Whitehead, Robert E., Associate Administrator for Aeronautics and Space Transportation Technology, National Aeronautics and Space Administration ..... 601
Widener, Mary Lee, president, Neighborhood Housing Services of America, Inc ..... 63
Witt, James L., Director, Federal Emergency Management Agency ..... 193
Prepared statement ..... 202
Wodraska, John R., general manager, Metropolitan Water District of Southern California, prepared statement ..... 839

Page

Wofford, Harris, Chief Executive Officer, Corporation for National and Community Service ..... 81
Prepared statement ..... 91

Zaterman, Sunia, executive director, Council of Large Public Housing Authorities [CLPHA], Washington, DC, prepared statement ..... 742

# SUBJECT INDEX

## AMERICAN BATTLE MONUMENTS COMMISSION


Page

ABMC:
- Cemeteries and memorials, 1997 Memorial Day and other events at ..... 125
- Special events and services to the public ..... 125

American Battle Monuments Commission ..... 126


## CONSUMER PRODUCT SAFETY COMMISSION


Cigarette lighters/cost benefit analysis ..... 164
Commission programs, reduced funding limits ..... 160
CPSC FTE's ..... 162
Information technology is needed, investment in ..... 151
Multipurpose lighters ..... 163
1998 priorities ..... 163
Programs, fiscal year 1998 ..... 159
Recent accomplishments ..... 158


## CORPORATION FOR NATIONAL AND COMMUNITY SERVICE


Chief Financial Officer ..... 101
Financial statements ..... 102


## DEPARTMENT OF DEFENSE—CIVIL

### CEMETERIAL EXPENSES, ARMY


Army—Interior land transfers ..... 142
Budget overview, fiscal year 1998 ..... 140
Ceremonies ..... 141
Claims and settlements ..... 142
Construction projects ..... 141
- Recently completed ..... 141

Funerals ..... 141
Master plan ..... 142


## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### OFFICE OF CONSUMER AFFAIRS


Air bag safety ..... 183
Consumer Resource Handbook..... 185, 190
CPSC:
- Budget ..... 177
- Initiatives ..... 180
- Should work with DOT ..... 184

Disseminating information electronically ..... 186
Fraud perpetrated against elderly ..... 179
OCA's effectiveness, measuring ..... 187
Other agencies, working with ..... 181
Small Business Regulatory Enforcement Fairness Act [SBREFA] ..... 175
USOCA:
- Helpline data base ..... 187
- Travel fund for fiscal year 1998 ..... 190

Page

## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT


Brownfields ..... 692
Decisionmaking to locals, redirection of ..... 667
Elderly care ..... 691
Emergency CDBG funding, use of ..... 703
Empowerment zones, review of ..... 704
Homeless assistance for smaller States ..... 689
Homeless programs, consolidation of ..... 690
Homeless services, proposed restrictions on ..... 690
HOPE VI reforms ..... 694
HUD:
- Programs, additional ..... 695
- Reforms, need for ..... 666
- Staff, introduction of ..... 670

Management transition plan ..... 683
Manufactured housing ..... 696
NAPA recommendations, implementation of ..... 693
Preservation program ..... 699
Priority:
- Averting section 8 crisis ..... 671
- Expanding affordable housing ..... 672
- Making welfare reform work ..... 673
- Management reforms ..... 674
- Restoring public trust ..... 673

Public housing units:
- Alternatives to selling ..... 701
- To tenants, sale of ..... 700

Rehabilitation units, cost of ..... 701
RESPA, proposed rule on ..... 697
Reverse mortgages, Senate measure on ..... 694
Section 8:
- Contract renewal reserves ..... 684
- Costs, increase in ..... 666
- Reserves:
  - Departmental policy on ..... 687
  - GAO estimate on ..... 684
  - Need for varying amounts of ..... 686
  - Recapturing ..... 688
  - The supplemental bill ..... 685


## DEPARTMENT OF THE TREASURY

### COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS


CDFI projects ..... 34
Performance standards ..... 38


## DEPARTMENT OF VETERANS AFFAIRS

### OFFICE OF THE SECRETARY


Compensation original claims processing ..... 557
Cost efficiency goals ..... 558
Federal supply schedules ..... 558
Health care employment reductions, savings achieved through ..... 549
Medical research funding:
- Reduction ..... 557
- Reduction in ..... 555

Medicare subvention ..... 553
Montgomery GI bill usage rate ..... 546
NAPA recommendations ..... 548
New patient mix ..... 551
Outreach clinics, Maryland community-based ..... 556
Per-patient cost reduction, 30 percent ..... 544
Perry Point modernization ..... 556
Third party reimbursement legislation ..... 554
User fee proposal ..... 543
VA health care restructuring savings ..... 543

Page

Veterans education benefits ..... 546
Veterans, treating more ..... 552
Year 2000 computer problems ..... 548

ENVIRONMENTAL PROTECTION AGENCY

Brownfields:
  Initiative ..... 269
  Sites ..... 279
Budget priorities ..... 279
Chesapeake Bay Program ..... 270
Children as a high priority ..... 256
Clean Air Act reviews ..... 299
Closing remarks ..... 350
CSI and project XL ..... 345
CWSRF ..... 336
E4E program ..... 346
EPA/State relationships ..... 326
Fine particles ..... 343
GPRA: Budget prioritization ..... 339
Green programs ..... 347
International program vision ..... 283
Lake Champlain management plan ..... 303
Mercury study ..... 302
Methylbromide ..... 329
NAAQS:
  Clean Air Act ..... 297
  Proposals ..... 271
  Protocal for accessing data ..... 278
  Scientific data ..... 272
  State grant request ..... 335
NAPA studies ..... 344
National mining strategy ..... 332
New legislation ..... 256
  Implementation ..... 334
Ozone NAAQS: CEA letter ..... 298
Peer review ..... 349
PM–2.5 ..... 342
PM and ozone standards ..... 304
Risk decisions in 1998 budget ..... 340
Safe Drinking Water Act ..... 300
Salmon, ID ..... 341
SBREFA ..... 348
South Lake Tahoe ..... 331
Superfund:
  Budget, fiscal year 1997 ..... 281
  Increase, proposed ..... 267
  New York Times article ..... 268
  Reauthorization ..... 281
  Reform ..... 283
Transuranic waste ..... 328
WIPP ..... 327
  Review ..... 331

EXECUTIVE OFFICE OF THE PRESIDENT

COUNCIL ON ENVIRONMENTAL QUALITY AND OFFICE OF ENVIRONMENTAL QUALITY

CEQ, elimination of ..... 8
Project XL ..... 9
Small business regulatory enforcement ..... 18
Spending priorities ..... 17

OFFICE OF SCIENCE AND TECHNOLOGY POLICY

National research investment portfolio ..... 440
National Science and Technology Council ..... 441
1996 accomplishments ..... 442
OSTP:
  Budget request ..... 442

Page

OSTP—Continued
Mission ..... 440
President's Committee of Advisors on Science and Technology ..... 442
Science and technology, recent advances in ..... 439
Twenty-first century, shaping the ..... 440

FEDERAL EMERGENCY MANAGEMENT AGENCY

Dam safety, requirements for ..... 219
Disaster appeals ..... 212
Disaster assistance:
For recreational facilities ..... 212
For sports facilities ..... 213
Disaster close-outs ..... 208
Disaster cost-cutting proposals ..... 212
Disaster criteria, timetable for ..... 214
Disaster program changes, getting Governors involved in ..... 199
Disaster relief fund, status of ..... 206
Disasters:
Criteria for rehabilitation from ..... 209
Funding for ..... 208
Fallen Firefighters Foundation, Maryland representation in ..... 219
Flood mitigation in Maryland ..... 209
Hazard mitigation ..... 211, 217
Incentives for States ..... 218
Inspector general recommendation ..... 219
Institutionalizing reform ..... 214
Insurance for public facilities ..... 216
National flood insurance fund, status of ..... 218
Northridge, cost for ..... 207
Ohio River flooding and tornado disasters, estimates for recent ..... 207
Performance partnership agreements, criteria for ..... 218
Private, nonprofit entities, eligibility of ..... 217
Seismic algorithm ..... 213
State and local assistance ..... 219
State cost share ..... 216

GENERAL SERVICES ADMINISTRATION

CONSUMER INFORMATION CENTER

CIC program ..... 165

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

Aeronautics program ..... 641
Aircraft consolidation plan ..... 625
Consolidated space operations contract [CSOC] ..... 629
Earth Observatory system data information status [EOSDIS] ..... 623
Expendable launch vehicles, upgrading ..... 643
Internation space station ..... 620
Mars mission ..... 639
Mergers and consolidations ..... 642
Mission to plant Earth ..... 627, 628
NASA:
Budget ..... 625
Budget/reserves ..... 626
Faster, better, cheaper ..... 640
Outreach programs ..... 628
Response to pursuing the right paths/options ..... 635
Russian situation ..... 628
Research aircraft, plans for ..... 625
Russian situation ..... 631
Science missions ..... 627
Scientific benefits ..... 637
Shuttle program ..... 636
Cost vs. Saturn/Apollo Program cost ..... 634
Vs. Saturn Program ..... 634
Shuttle safety ..... 632

Page

Space science programs ..... 630
Space station ..... 637
Benefits ..... 635, 638
Funding caps ..... 621
Internation cooperation ..... 637
Out-year request ..... 633
Program ..... 636
Yes or no? ..... 634
X–33 ..... 639
Cost effectivess of ..... 644
Program ..... 635, 640, 643

NATIONAL CREDIT UNION ADMINISTRATION

CDFI ..... 75
Credit unions, Supreme Court decision on ..... 76
Efficiency measures ..... 68
Financial services, modernization of ..... 78
Home Program ..... 74
Hope IV in Baltimore ..... 72
Lessions learned ..... 67
Navajo partnership for housing ..... 74
Rural housing concerns ..... 75
Southern Baltimore, goals for ..... 72

NATIONAL SCIENCE FOUNDATION

Agricultural research, funding for ..... 479
Arabidopsis genome project ..... 478
Communication/coordination, need for better ..... 476
Corn genome study, potential ..... 479
Evaluation and performance ..... 487
Federal R&D investment ..... 465
Genome studies ..... 477
Future of ..... 480
Goal setting ..... 471
Examination of ..... 482
GPRA ..... 472
Impact of research, measuring the ..... 472
Interagency meeting, request in ..... 480
Knowledge and distributed intelligence ..... 482
Life and Earth's environment ..... 484
OSTP in space issues, role of ..... 467
Public investment in research and development ..... 466, 467
Russia's role in space station ..... 468
Science and technology budget ..... 465
Setting priorities and measuring programs ..... 488
Space program, safety of ..... 469
Space programs ..... 469
Strategic research ..... 470
Success indicators ..... 484
Year 2000:
Computer dilemma ..... 473
Flipover ..... 475
Flipover issues ..... 476
Issue, role White House has in solving ..... 474
Issues ..... 474

SELECTIVE SERVICE SYSTEM

ABMC:
Informational services ..... 153
Infrastructure ..... 149
Infrastructure and backlog ..... 151
Memorial Day and other ceremonies ..... 153
America initiative:
Costs of service to ..... 150
Results of service to ..... 152
Service to ..... 145

Page

Responsibilities ..... 150
Selective Service, future of ..... 150

U.S. COURT OF VETERANS APPEALS

Budget summary ..... 110
Case backlog ..... 109
Pro bono representation program ..... 120
VA decision process ..... 118

○