

DEPARTMENTS OF TRANSPORTATION, TREASURY, THE JUDICIARY, HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2006

THURSDAY, APRIL 21, 2005

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, Bennett, Stevens, Murray, and Kohl.

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

STATEMENT OF JOSHUA B. BOLTEN, DIRECTOR

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Good morning. The Senate Appropriations Subcommittee on Transportation, Treasury, the Judiciary, Housing and Urban Development, and Related Agencies will come to order.

We welcome Josh Bolten, Director, Office of Management and Budget. I look forward to your views, Director Bolten, on the President's overall budget request for 2006, as well as budget issues related to OMB's own needs.

The President's budget request for 2006 calls for some \$840 billion in overall discretionary budget authority, including \$419 billion for the Department of Defense and \$32 billion for Homeland Security. For DOD, this would be an increase of \$19 billion, or 4.8 percent, over 2005. For Homeland Security, this would be an increase of \$1 billion, or 3.1 percent, over 2005. Even with significant increases in security-related spending, the overall 2006 budget request would hold overall spending to a 2.1 percent growth, just below the rate of inflation.

Consequently, the budget proposes that overall non-security discretionary spending would be reduced from the 2005 level by \$3 billion, or 0.7 percent, for a total of \$389 billion. Moreover, on non-defense discretionary spending, the budget proposes more than 150 reductions and eliminations in Federal programs to save \$20 billion in budget authority in this coming fiscal year alone.

I support the President's goal of cutting the deficit in half by 2008. However, reducing the deficit solely on the back of domestic discretionary spending is very troubling and, I believe, an ill-conceived strategy that could have disastrous results for many important, congressionally supported, as well as popularly supported domestic programs. To be clear, discretionary spending should be reduced where appropriate. We should not, however, reduce those programs solely to meet arbitrary deficit reduction numbers, especially when many of these programs are important to the health, safety, and quality of life of the citizens of our Nation.

More importantly, mandatory spending must be reduced to achieve any true spending reform and deficit reduction. While I support the President's efforts to reform Social Security in order to avoid bankrupting the future of our children and our children's children, I am concerned that the budget proposes total mandatory spending of \$1.6 trillion in 2006, an increase of \$107 billion, or 7 percent, over fiscal year 2005. Mandatory spending currently accounts for some 63 percent of total Federal spending and by 2010 will grow to \$2.1 trillion which would represent 68 percent of total spending. This is a total annual growth rate of some 6.3 percent, which towers over any savings expected to be achieved from domestic discretionary spending cuts.

However, we are not here to discuss reforming mandatory programs, no matter how important. We are here to discuss the President's proposed budget for domestic discretionary spending, especially those programs within the jurisdiction of the Transportation, Treasury, and HUD Appropriations Subcommittee, or the THUD committee, as it is called.

The House and Senate Appropriations and Budget Committees and OMB share responsibility for recommending a budget to Congress and the President that will ensure the continued effective running of the United States Government for each fiscal year. However, at the end of the day, we as appropriators must present to Congress and then the President a bill that is financially sound, responsible, and capable of maintaining the efficient running of government.

As part of this process, OMB has an obligation to propose funding recommendations that are consistent with budget and program realities. The administration's budget should not be based on flawed data and budget assumptions and should not include recommendations that violate Congress' Budget and Impoundment Control Act of 1974.

Unfortunately, I believe this budget request contains a number of flawed budget assumptions, as well as a number of ill-considered budget and policy recommendations. In many cases, Mr. Bolten, I believe you and the President have been ill-served by your staff, and it is especially problematic in a year of tight budget allocations.

As you may know, I had the distinct honor previously of serving as chair of the VA/HUD Appropriations Subcommittee and now as the chair of this subcommittee. This has allowed me to develop some familiarity with \$170 billion of domestic discretionary spending, or 50 percent of the President's budget for domestic discretionary spending. I will focus my comments and questions today

and for the record primarily on programs of which I have a personal knowledge and interest. Nevertheless, I understand that my concerns with the fiscal year 2006 budget are similar to the concerns my colleagues are wrestling with in other appropriations subcommittees.

First, let me express my sincere disappointment that the administration has proposed to eliminate the HUD Community Development Block Grant program, along with 17 other programs, and replace these with a block grant program in Commerce called Strengthening America's Communities Initiative.

The administration proposes to fund this initiative only at \$3.7 billion, which is an overall reduction for all these programs of almost \$2 billion, or some 34 percent, from the 2005 level.

The proposed elimination and related reduction of funding for CDBG, as well as many of these other programs is, in my view, a tragedy. Communities across the Nation rely on CDBG to fund critical housing and community development programs, and without these funds, many local programs will falter and fail.

Equally important, CDBG is a critical component of HUD's mission. CDBG helps to make HUD's housing mission successful. That is why they call it Housing and Urban Development. Without CDBG, it is the Department of Housing, and if your proposals go forward to block grant everything, housing would probably wind up as an office in the Secretary of Commerce's office that hands out block grant monies. As history tells us, successful community development relies on a comprehensive approach to housing and community development.

Now, CDBG is not perfect. CDBG funds are not always used well or effectively. However, HUD, OMB, and select CDBG interest groups recently ratified a consensus document to address weaknesses in the CDBG program by creating an outcome measurement system to establish new benchmarks and better oversight. Since this document is designed to address OMB's concerns, I am puzzled by the administration's proposal to dismantle a program that has been redesigned to become more effective and successful as required by the administration.

I have some more practical concerns, however. Even if we were to pass a new Commerce block grant this year—and I will have to say, talking with my colleagues, I find a minimum amount of high enthusiasm in the Congress for that—if you were successful to replace CDBG with a block grant, how is it possible for the Commerce Department to implement the program for 2006, including the issuing of regulations, the hiring and training of staff, and the education of communities in how these funds must be used? What happens to communities with existing projects that rely on CDBG funding, especially those projects with section 108 loan guarantees where the guarantees rely on a flow of future CDBG funding?

I will also have additional questions with regard to the proposed consolidation of the Community Development Financial Institutions program, the Bank Enterprise Act program, and the Section 4 Capacity Building LISC/Enterprise program into the new proposed Commerce block grant. None of these activities would fit into a block grant scheme, and I think the Nation would be a loser for it.

Another major funding area that OMB has not adequately supported—and we have talked about this before—is basic scientific research, primarily the physical sciences, which is mainly funded through the National Science Foundation. I no longer have responsibility in my committee for that, but let me reemphasize that NSF should play a critical role in the economic, scientific, and intellectual growth of the Nation. Our country's future resides in our ability to lead the world in science and technology, especially in the global marketplace. NSF should be one of our primary tools in meeting the goals of the 21st century by pushing the boundaries of scientific research and technology. This work of NSF will significantly build our economy and speed innovation.

The lack of support of NSF and the physical sciences and the growing funding disparity between the life sciences and the physical sciences is jeopardizing our Nation's ability to lead the world in scientific innovation. We are jeopardizing the work of the National Institutes of Health because we are undermining the physical sciences which provide the underpinning for medical technological advances. Inadequate funding for NSF hurts our economy and the creation of good jobs which would help address the outcry of outsourcing jobs to other countries. The bottom line is that by underfunding NSF, we are shooting ourselves and our future generations in the foot.

I know that this is not in this committee, but I believe that this is of such major concern that it ought to be addressed at the top policy levels in the administration. We have proposed and I have heard general plaudits for the goal of doubling the funding of NSF in 5 years, or a 14.7 percent increase annually, and I think the entire scientific community and anybody who looks at it would agree.

But let us go back to the THUD committee. I am really puzzled and concerned over the administration's proposal to rescind \$2.5 billion from HUD's Housing Certificate Fund. As you know, we have spent several years reforming the Section 8 tenant-based voucher program to limit the growing costs, and we have required public housing authorities to implement a more responsible budget-based planning and funding system for the program. As a responsible part of these reforms, much of the funds that have been available normally for rescission from within HUD over the last few years are no longer available. In point of fact, when the HUD Secretary, Alphonso Jackson, came before us, we asked him to identify any account or source of funds at this time which could support a \$2.5 billion rescission from within HUD. He was unable to do so, and I can understand his problem. But this is a question which needs concrete answers before we draft this bill and try to impose cuts in an area where nobody knows that rescissions can be made.

To be blunt, everyone's expectation is that OMB and HUD will have a system for evaluating and verifying where rescission funds will come from with a reasonable level of certainty. In particular, I expect OMB to provide an assessment of where these rescissions will come from and the methodology that OMB and HUD used in determining the amount of the rescission.

In addition, the administration is seeking to eliminate HOPE VI, as well as rescind the HOPE VI fiscal year 2005 funding of \$143 million. As you may know—you may not know, but I am here to

advise you—I set the stage for HOPE VI by including a demonstration project in the 1990 National Affordable Housing Act that allowed the demolition and replacement of Pruitt-Igoe Public Housing in St. Louis with vouchers and new housing. This approach has revolutionized the way we reformed obsolete public housing by allowing for the demolition of obsolete housing and the creation of mixed income private and public housing. This program has resulted in leveraging new private investment and the revitalization of entire communities. If anybody has any doubts about it, I would invite them to come to St. Louis or the many other communities where HOPE VI has been extremely successful.

I am concerned today also with the administration's penchant for rescinding 2005 funding programs that were supported by Congress and enacted by the President. There are other examples throughout the budget, including within this subcommittee. For example, the administration proposes a rescission of \$74 million appropriated in 2005 for the Maritime Administration for the national defense tank vessel construction program. The rescission would eliminate the program. Both rescission requests raise possible violations of the Congressional Budget and Impoundment Control Act, as well as significant costs to the subcommittee, depending on our actions. If we do not rescind these funds from the enacted 2005 appropriations, the subcommittee will have to make up some \$212 million that must come from offsets or cuts in other programs. If the rescissions do go forward, we think that there are other significant liabilities that will be incurred by the Federal Government, and it is an open question where those funds will come from.

Another substantial concern in the 2006 budget is Amtrak funding. I have not been a cheerleader for Amtrak. I supported it as Governor. But as the people at OMB should know, there are many of my colleagues and supporters that will seek to backfill this funding shortfall. I think you can count probably 55 or 60 votes on the Senate floor. That means we will have to cut other programs. These are program cuts and offsets that the administration has been unable or unwilling to identify. To be honest, I find the proposal for the Amtrak budget not responsible. I support the administration's efforts to initiate long overdue and fundamental reform of Amtrak's failed business model, but it is obvious that the \$360 million the administration is proposing to support the dismantling of Amtrak is totally inadequate and could throw the entire passenger train industry into chaos, with bankruptcy and untold problems throughout the system, and for rail transportation generally. Clearly, whatever approach Congress takes, the funding for Amtrak will be far greater than proposed and will have to come from somewhere.

I also support the Airport Improvement Program which provides Federal grants to airports for projects to enhance safety, capacity, security, and environmental concerns. Yet, the 2006 budget requests \$3 billion for AIP, a reduction of nearly \$500 million from the 2005 enacted level, and a \$600 million reduction from the amount authorized for 2006. This is a popular and important program that has broad support. The proposed funding will impact the

funding available for primary and non-primary airports. Adequate funding is especially important in view of rising fuel costs.

Another area of concern to me is the Federal Government's ability or lack thereof to procure and manage information technology systems. To be clear, this is a problem that has existed for many years through both Democratic and Republican administrations. The Federal Government spends over \$60 billion on IT projects, but it appears that a large portion of these funds are not managed effectively. For example, the Internal Revenue Service's Business Systems Modernization has been fraught with cost overruns, missed deliverables, and is currently designated as high risk by the Government Accountability Office. I could go down a list of problematic IT systems, but that would require another hearing. I think it is imperative—and this is where I have a constructive suggestion for OMB—to do a better job protecting the taxpayers' interest in procuring and overseeing its multi-billion dollar portfolio. Perhaps OMB could develop a cadre of experts to assist individual agencies in the IT arena by helping to establish IT requirements, helping to negotiate IT contracts, and helping to ensure that contractors meet all the requirements, benchmarks, and time lines. I look forward to working with you on IT procurement and management and any plans the agency may have to address this issue.

I do not think it is too much to ask the Federal Government to live within a budget. I did so as Governor of Missouri, and I believe in responsible spending. In conclusion, however, I do not believe that we should have to live within a budget that is based on flawed assumptions and is fiscally questionable, especially when proposed budget shortfalls must be offset from other programs and activities that the administration was unable to identify or propose. How can we make the budget work if OMB cannot?

PREPARED STATEMENT

Mr. Director, I would like to work with you in particular on the Government's IT issues. We also need your help and assistance in developing a budget and an appropriations plan that will allow our subcommittee to produce a responsible bill.

I look forward to working with you on these issues, and I now turn to my ranking member, Senator Murray. Senator.

[The statement follows:]

PREPARED STATEMENT OF SENATOR CHRISTOPHER S. BOND

The Senate Appropriations Subcommittee on Transportation, Treasury, the Judiciary, Housing and Urban Development and Related Agencies will come to order. We welcome Josh Bolten, Director, Office of Management and Budget (OMB). I look forward to your views on the President's overall budget request for fiscal year 2006 as well as budget issues related to OMB's own needs.

The President's budget request for fiscal year 2006 calls for some \$840.3 billion in overall discretionary budget authority, including some \$419.3 billion for the Department of Defense and \$32 billion for Homeland Security. For DOD, this would be an increase of \$19 billion or 4.8 percent over fiscal year 2005. For Homeland Security, this would be an increase of \$1 billion or 3.1 percent over fiscal year 2005. Even with significant increases in security-related spending, the overall fiscal year 2006 budget request would hold overall spending to a 2.1 percent growth, just below the rate of inflation.

Consequently, the budget proposes that overall non-security discretionary spending would be reduced from the fiscal year 2005 level by some \$3 billion or 0.7 percent for a total of \$389 billion. Moreover, as to non-defense discretionary spending,

the budget proposes more than 150 reductions and eliminations in Federal programs which would save some \$20 billion in budget authority in fiscal year 2006 alone.

I support the President's goal of cutting the deficit in half by fiscal year 2008. However, reducing the deficit almost solely on the back of domestic discretionary spending is very troubling and, I believe, an ill-conceived strategy that could have disastrous results for many important, congressionally-supported domestic programs. To be clear, discretionary spending should be reduced where appropriate. We should not, however, reduce these programs solely for sake of deficit reduction, especially when many of these programs are important to the health, safety and quality of life of our Nation's citizens.

More importantly, mandatory spending must be reduced to achieve any true spending reform and deficit reduction. And while I support the President's efforts to reform Social Security in order to avoid bankrupting the future of our children and children's children, I remain very concerned that the budget proposes total mandatory spending of \$1.6 trillion in fiscal year 2006, an increase of \$107 billion or 7 percent over fiscal year 2005. Mandatory spending currently accounts for some 63 percent of total Federal spending. By fiscal year 2010, mandatory spending will grow to \$2.1 trillion and will represent some 68 percent of total spending. This is a total annual growth rate of some 6.3 percent which towers over any savings expected to be achieved from domestic, discretionary spending.

However, we are not here to discuss reforming mandatory programs, no matter how important. We are here to discuss the President's proposed budget for domestic, discretionary spending for fiscal year 2006, especially those programs within the jurisdiction of the Transportation/Treasury Appropriations Subcommittee.

The House and Senate Appropriations and Budget Committees and OMB share responsibility for recommending a budget to the Congress and the President that will ensure the continued effective running of the United States Government for each fiscal year. However, at the end of the day, we, as appropriators, MUST present to the Congress and then the President a bill that is financially sound, responsible and capable of maintaining the efficient running of the government.

As part of this process, OMB has an obligation to propose funding recommendations that are consistent with budget and program realities. The administration's budget request should not be based on flawed data and budget assumptions, and should not include recommendations that are a violation of the Congressional Budget and Impoundment Control Act of 1974.

Unfortunately, I believe this budget request contains a number of flawed budget assumptions as well as a number of ill-considered budget and policy recommendations. In many cases, Mr. Bolten, I believe that you and the President have been poorly served by your staff. This is especially problematic in a year of tight budget allocations.

As you know, I have had the distinct honor of serving as the former chair of both the VA/HUD Appropriations Subcommittee and now as the chair of the Transportation/Treasury Appropriations Subcommittee. This has allowed me to develop familiarity with some \$170 billion of domestic discretionary spending or some 50 percent or more of the President's budget for domestic, discretionary spending. As a result, I will focus my comments and questions today and for the record primarily on programs of which I have a personal knowledge and interest. Nevertheless, I understand that my concerns with the fiscal year 2006 budget are similar to the concerns my colleagues are wrestling with in other appropriations subcommittees.

First, I am very disappointed that the administration has proposed to eliminate the HUD Community Development Block Grant (CDBG) program along with some 17 other programs and replace these programs with a new block grant in the Department of Commerce called the Strengthening America's Communities initiative. The administration also is proposing to fund this new initiative at \$3.7 billion which is an overall reduction for all these programs of almost \$2 billion or some 34.2 percent from the fiscal year 2005 level.

The proposed elimination and related reduction of funding for CDBG as well as many of these other programs is a tragedy. Communities across the Nation rely on CDBG to fund critical housing and community development programs. Without these funds, many local programs will falter and even fail. Equally important, CDBG is a critical component of HUD's mission; CDBG helps to make HUD's housing mission successful. Moreover, the use of CDBG consolidated plans helps to ensure that communities tie together CDBG, housing funds and other Federal and State resources into a comprehensive approach to local housing and community development needs.

Without CDBG, HUD's mission will be reduced to almost solely housing. As history tells us, successful community development relies on a comprehensive approach to housing and community development.

CDBG is not a perfect program and CDBG funds are not always used well or effectively. However, HUD, OMB and select CDBG interested groups recently ratified a consensus document to address weaknesses in the CDBG program by creating an Outcome Measurement System to establish new benchmarks and better oversight. Since this document is designed to address OMB's concerns, I am puzzled by the administration's efforts to dismantle a program that has been redesigned to become more effective and successful according to administration requirements.

I have more practical concerns, however. Even if we pass a new Commerce Block grant this year to replace CDBG, how is it possible for the Commerce Department to implement the program for fiscal year 2006, including the issuing of regulations, the hiring and training of staff, and the education of communities in how these funds must be used? What happens to communities with existing projects that rely on CDBG funding, especially those projects with section 108 loan guarantees where the guarantees rely on a flow of future CDBG funding?

I also will have additional questions with regard to the proposed consolidation of the Community Development Financial Institutions program, the Bank Enterprise Act program and the Section 4 Capacity Building "LISC/Enterprise" program into the new proposed commerce block grant. None of these activities easily fit into a block grant scheme.

Another major funding area that OMB has not adequately supported is basic scientific research—primarily, the physical sciences—which is mainly funded through the National Science Foundation. NSF plays a critical role in the economic, scientific and intellectual growth of this Nation. Our country's future resides in our ability to lead the world in science and technology, especially in the global marketplace. NSF is one of our primary tools in meeting the global challenges of the 21st Century by pushing the boundaries of scientific research and technology. This work will grow our economy and speed innovation, improving the quality of life for all people.

However, the lack of support for NSF and the physical sciences and the growing funding disparity between the life sciences and the physical sciences is jeopardizing our Nation's ability to lead the world in scientific innovation. Further, we are jeopardizing the work of the National Institutes of Health because we are undermining the physical sciences, which provide the underpinning for medical technological advances. Inadequate funding for NSF also hurts our economy and the creation of good jobs, which would help address the outcry of outsourcing jobs to other countries. The bottom-line is that by underfunding NSF, we are shooting ourselves and our future generations in the foot. I hope we can get NSF back on the path of doubling the budget as I have strongly advocated.

I also am very puzzled and concerned over the administration's proposal to rescind some \$2.5 billion from HUD's Housing Certificate Fund. As you know, we have spent several years reforming the section 8 tenant-based voucher program to limit the growing costs and require PHAs to implement a more responsible budget-based planning and funding system for the voucher program. As a responsible part of these reforms, much of the funds that have been available normally for rescission from within HUD over the last few years are no longer available. In point of fact, HUD's Secretary, Alphonso Jackson, was unable to identify any account or source of funds at this time which could support a \$2.5 billion rescission from within HUD. This is a question which needs concrete answers before we draft this bill. To be blunt, everyone's expectation is that OMB and HUD have a system for evaluating and verifying where rescission funds will come from with a reasonable level of certainty. In particular, I expect OMB to be able to provide an assessment of where these rescissions will come from and the methodology that OMB and HUD used in determining the amount of the rescission.

In addition, the administration is seeking to eliminate HOPE VI as well as rescind the HOPE VI fiscal year 2005 funding of \$143 million. As you may know, I set the stage for HOPE VI by including a demonstration project in the 1990 National Affordable Housing Act that allowed the demolition and replacement of Pruitt-Igoe Public Housing in St. Louis with vouchers and new housing. This approach revolutionized the way we reformed obsolete public housing by allowing for the demolition of this obsolete housing and the creation of mixed income private and public housing. This program has resulted in leveraging new private investment and the revitalization of entire communities.

While I am opposed to the elimination of the HOPE VI program, I am more concerned today with the administration's penchant for rescinding fiscal year 2005 funding from programs that were supported by the Congress and enacted by the President. There are other examples throughout the budget, including within the Transportation/Treasury Appropriations Subcommittee. For example, the administration also proposes a rescission of \$74 million appropriated in fiscal year 2005 for the Maritime Administration for the National Defense Tank Vessel Construction

program. This rescission would eliminate this program. Both rescission requests raise possible violations of the Congressional Budget and Impoundment Control Act as well as significant costs to the subcommittee depending on our actions. If we do not rescind these funds from these fiscal year 2005 enacted appropriations, the subcommittee will have to make up some \$212 million that must come from offsets or cuts in other programs.

Another area of substantial concern in the fiscal year 2006 budget is Amtrak funding. I am not a fan of Amtrak but it appears, as OMB knows, that many of my colleagues are supporters and will seek to backfill this funding shortfall. This means we will have to cut other programs, and these are programs cuts and offsets that the administration has been unable or unwilling to identify. I also find the Amtrak budget incredibly irresponsible. While I support the administration's efforts to initiate long overdue and fundamental reform of Amtrak's failed business model, it is obvious that the \$360 million that the administration is proposing to support the dismantling of Amtrak is totally inadequate and could throw the entire passenger train industry into chaos. Clearly, whatever approach the Congress takes, the funding for Amtrak will be far greater than proposed and will have to come from somewhere.

I also support the Airport Improvement Program which provides Federal grants to airports for projects to enhance airport safety, capacity, security, and environmental concerns. Yet, the fiscal year 2006 budget requests \$3.0 billion for AIP, a reduction of nearly \$500 million from fiscal year 2005 enacted level and a \$600 million reduction from the amount authorized for fiscal year 2006. This is a popular and important program that has broad support and the proposed funding will impact the funding available for primary and non-primary airports.

Another area of concern to me is the Federal Government's ability, or lack thereof, to procure and manage information technology systems. To be clear, this is a problem that has existed for many years through both Democratic and Republican administrations. The Federal Government spends over \$60 billion on IT projects but it appears that a large portion of those funds are not managed effectively. For example, the Internal Revenue Service's "Business Systems Modernization" has been fraught with cost overruns and missed deliverables and is currently designated as a "high risk" area by the Government Accountability Office. I could go down a laundry list of problematic IT systems but that would require another hearing. I believe it is imperative that the Federal Government, led by OMB, must do a better job of protecting the taxpayer's interest in procuring and overseeing its multibillion dollar portfolio. Perhaps, OMB could develop a cadre of experts that assist individual agencies in the IT arena by helping to establish agency IT requirements, helping to negotiate the IT contract, and helping to ensure the contractor meets all requirements, benchmarks and timelines. I look forward to hearing OMB's efforts in IT procurement and management and any plans the agency may have in addressing this serious issue.

I don't think it is too much to ask the Federal Government to live within a budget. I did so as governor of Missouri and I believe in responsible spending. However, I do not believe that we should have to live within a budget that is based on flawed assumptions and is fiscally questionable, especially when proposed budget shortfalls must be offset from other programs and activities—programs and activities that the administration was unable to identify or propose. How are we expected to make the budget work if OMB cannot?

Mr. Bolten, I would like to work with you in particular on the government's IT issues. However, we also need your help and assistance in developing a budget that allows our subcommittee to develop a responsible bill. I look forward to working with you on all these issues.

I now turn to my Ranking Member, Senator Murray.

STATEMENT OF SENATOR PATTY MURRAY

Senator MURRAY. Thank you very much, Mr. Chairman. I join with you in welcoming OMB Director Bolten here to our subcommittee this morning.

It has been at least 3 years since the OMB Director has appeared before the subcommittee, so I am pleased that Director Bolten could be with us to discuss the budget request for his own office, as well as the larger budget request of the President for the coming fiscal year.

Mr. Chairman, in addition to serving on the Appropriations Committee, I serve on the Budget Committee. Chairman Bond used to serve on the Budget Committee, but he has moved on to bigger and better things wisely.

You did not need to hear what he just said.

Over the past several weeks, the Budget Committee has been busy drafting a budget and moving it through committee markup and passing it to the Senate floor. I voted against that budget both in committee and on the floor because I believe it did not reflect the right priorities for our county, and it did not strike the right balance between taxes, deficit reduction, and the very real needs that are facing our communities.

I actually have to say that participating in the budget debate over the past couple weeks has reminded me of a very lengthy and painful visit to the dentist's office, and the Muzak in the dentist's office played nothing but a repeating loop of that song we all know well, "Don't Worry, Be Happy."

Don't worry about the drastic cuts, the unidentified rescissions, the user fees, and the problems we are pushing down the road. Don't worry about what is actually in the budget. We will deal with it later. It is kind of don't worry, be happy.

Well, frankly, I am very worried because I can see what is going to happen to some of our country's most critical needs. We are setting ourselves up for a train wreck.

The budget resolution that was presented in the committee accepted the President's proposed funding figure for non-defense, non-homeland security discretionary spending. It was a real cut below last year's level. During debate on the budget, many amendments were offered to restore funding cuts that were proposed in the President's budget. We had amendments to restore funding for Amtrak, the Community Development Block Grant program, first responders, cops on the street, vocational education, and others. Almost all of those amendments were rejected, but still many Senators were telling us don't worry, be happy because when Congress gets around to the appropriations process later in the year, we are not going to enact those cuts anyway.

Well, that does not make the problem go away. In fact, it actually makes it worse.

For example, the Senate failed to adopt an amendment to restore \$1.4 billion in spending so Amtrak could maintain rail service next year. Even though that amendment failed, I have heard a number of my colleagues in the Senate say, don't worry, be happy, we will find enough money in the appropriations process to keep Amtrak alive anyway.

Similarly, an amendment was offered to restore funding for the Community Development Block Grant program. While that amendment failed, an amendment was later adopted that said we will somehow find the funding to restore the CDBG program through cuts in unidentified programs. Again, it is don't worry about what is actually in the budget, be happy.

As the budget resolution now moves toward conference, I am having a very hard time convincing some of my colleagues to understand the math does not add up. If we are going to adopt a ceiling for domestic discretionary spending that comes close to the

President's number, we are either going to have to accept many of the budget cuts or we are going to have to impose severe cuts in other programs.

Amtrak and CDBG are just two of the President's proposals under this subcommittee's jurisdiction. The President's budget proposes an unallocated rescission of \$2.5 billion to be derived from any program within the Department of Housing and Urban Development. The budget does not tell us where that \$2.5 billion would come from.

And last week, HUD Secretary Jackson would not provide a guarantee to the subcommittee that those severe cuts would not come at the expense of programs serving the poor or even the homeless. Again, it is don't worry about the budget cuts, don't worry about the impact on the poor and homeless, just be happy.

Similarly, within the subcommittee's jurisdiction, the President is proposing a large number of new user fees, fees that some say are just new taxes. These are fees that are not going to be adopted by the authorizing committees and therefore will require discretionary appropriations the President has not requested. In fact, if the past is any guide, it is not clear that the administration will ever get around to even submitting their user fee proposals to the authorizing committees.

When I add together all of these funding holes, I see a shortfall of between \$5 billion and \$6 billion just for programs under the jurisdiction of this subcommittee.

So I am one Senator who cannot buy into the "don't worry, be happy" attitude of some of my colleagues, and frankly, I am very worried. This subcommittee is facing a very tough road ahead and it will have a painful impact on our communities.

Absent some recognition on the part of the conferees on the budget resolution of the very real holes in the President's budget proposal, I believe that some of my colleagues will be facing a very rude awakening when we get to the appropriations process later this summer.

I would implore my colleagues to stop listening to the music and instead focus on the impossible choices we are setting ourselves up for if we stick to the President's proposed ceiling for domestic discretionary spending.

Mr. Bolten, I also want to question you today about the President's dramatic cuts to the Hanford nuclear waste cleanup. The President's cuts may violate the Federal Government's legal obligations under the Tri-Party Agreement, and I am not going to remain quiet while this administration walks away from its responsibility to the people of the Tri-Cities in my State.

I also want you to know that I am very concerned about the President's budget proposals relating to the Bonneville Power Administration. The White House plan will force higher electricity rates on Northwest residents and on our businesses. I know I do not need to remind you, Mr. Bolten, our region is still really feeling the effects of the Enron manipulation of the market at the same time we are experiencing extremely high gas prices. We have had enough pain when it comes to energy, and we do not need a White House plan that puts energy traders above Northwest citizens and businesses.

Another White House proposal for BPA would cripple our ability to invest in our transmission and generation systems, which will leave our entire region vulnerable to blackouts and higher energy costs.

PREPARED STATEMENT

So, Mr. Bolten, those are some of the things I want to explore with you during this hearing.

Mr. Chairman, thank you so much for holding this, and I look forward to the discussion.

[The statement follows:]

PREPARED STATEMENT OF SENATOR PATTY MURRAY

I want to welcome OMB Director Bolten to the subcommittee this morning. It's been at least 3 years since the OMB Director has appeared before the subcommittee, so I'm pleased that Director Bolten could be with us to discuss the budget request for his own office, as well as the larger budget request of the President for the coming fiscal year.

In addition to serving on the Appropriations Committee, I serve on the Budget Committee. Chairman Bond also used to serve on the Budget Committee, but he has since moved on to bigger and better things.

Over the past several weeks, the Budget Committee has been busy drafting a budget, moving it through committee mark-up, and passing it on the Senate Floor. I voted against that budget, both in committee and on the Floor, because I believe it did not reflect the right priorities for our country. It did not strike the right balance between taxes, deficit reduction, and the very real needs facing our communities.

Participating in the budget debate over the past several weeks has reminded me of a very lengthy and painful visit to the dentist's office. And the muzak in this dentist's office played nothing but a repeating loop of that song, "Don't Worry, Be Happy".

Don't worry about the drastic cuts, the unidentified rescissions, the user fees, and the problems we're pushing down the road. Don't worry about what's actually in the budget. We'll deal with it later. Don't worry. Be happy.

Well frankly, I am worried, because I can see what's going to happen to some of our country's most critical needs. We are setting ourselves up for a train wreck.

The Budget Resolution presented in committee accepted the President's proposed funding figure for non-Defense, non-Homeland Security discretionary spending. It was a real cut below last year's level. During debate on the budget, many amendments were offered to restore funding cuts that were proposed in the President's Budget. We had amendments to restore funding for Amtrak, the Community Development Block Grant Program, first responders, cops on the street, vocational education and others.

Almost all of these amendments were rejected, but still many Senators are telling us: "Don't worry. Be happy," because when Congress gets around to the Appropriations process later in the year, we aren't going to enact those cuts anyway.

Well that doesn't make the problem go away. In fact, it makes it worse.

For example, the Senate failed to adopt an amendment to restore \$1.4 billion in spending so that Amtrak could maintain rail service next year. Even though that amendment failed, I have heard a number of my colleagues in the Senate say, "Don't worry. Be happy."; we will find enough money through the Appropriations process to keep Amtrak alive anyway.

Similarly, an amendment was offered to restore funding for the Community Development Block Grant Program. While that amendment failed, an amendment was later adopted that said that we will somehow find the funding to restore the CBDG program through cuts in other unidentified programs. Again, it's don't worry about what's actually in the budget—be happy.

As the Budget Resolution moves toward conference, I am having a very hard time getting my colleagues to understand that the math just doesn't add up. If we are going to adopt a ceiling for domestic discretionary spending that comes close to the President's number, we are either going to have to accept many of his budget cuts, or we are going to have to impose severe cuts in other programs.

Amtrak and CBDG are just two of the President's proposals under this subcommittee's jurisdiction. The President's budget proposes an unallocated rescission

of \$2.5 billion to be derived from any program within the Department of Housing and Urban Development.

The budget doesn't tell us where that \$2.5 billion would come from. Last week, HUD Secretary Jackson would not provide a guarantee to this subcommittee that these severe cuts would not come at the expense of programs serving the poor or even the homeless. Again, it's don't worry about the budget cuts. Don't worry about the impact on the poor or homeless. Be happy.

Similarly, within the subcommittee's jurisdiction, the President is proposing a large number of new user fees—fees that some say are just new taxes.

These are fees that are not going to be adopted by the authorizing committees and therefore, will require discretionary appropriations that the President has not requested.

In fact, if the past is any guide, it is not clear that the administration will ever get around to even submitting their user fee proposals to the authorizing committees.

When I add together all these funding holes, I see a shortfall of between \$5 billion and \$6 billion just for programs under the jurisdiction of this subcommittee.

So, I am one Senator that can't buy into the "don't worry, be happy" attitude of some of my colleagues. Frankly, I am worried. This subcommittee is facing a very tough road ahead, and it will have a painful impact on our communities.

Absent some recognition on the part of the conferees on the Budget Resolution of the very real holes in the President's budget proposal, I believe that some of my colleagues will be facing a very rude awakening when we get to the Appropriations process later this summer.

I would implore my colleagues to stop listening to the music and instead focus on the impossible choices that we are setting ourselves up for if we stick to the President's proposed ceiling for domestic discretionary spending.

HANFORD NUCLEAR CLEANUP

Mr. Bolten, I also want to question you about the President's dramatic cuts to the Hanford nuclear waste clean up. The President's cuts may violate the Federal Government's legal obligations under the Tri-Party agreement. I am not going to remain quiet while this administration walks away from its responsibility to the people of the Tri-Cities.

BPA

I also continue to be concerned by the President's budget proposals relating to the Bonneville Power Administration. The White House plan will force higher electricity rates on Northwest residents and businesses. I don't need to remind you, Mr. Bolten, that our region is still feeling the painful effects of Enron's manipulation of the market at the same time we're experiencing record gas prices. We've had enough pain when it comes to energy. We don't need a White House plan that puts energy traders above Northwest citizens and businesses.

Another White House proposal for BPA would cripple our ability to invest in our transmission and generation systems, leaving our entire region vulnerable to black-outs and higher energy costs. Those are some of the things I want to explore with you during this hearing.

PREPARED STATEMENT

Senator BOND. Thank you very much, Senator Murray. Senator Cochran has submitted a statement which will be included in the record as well.

[The statement follows:]

PREPARED STATEMENT OF SENATOR THAD COCHRAN

Mr. Director, thank you for being here today to discuss the President's budget request. It is a pleasure to work with you as we move forward through the appropriation process.

The President's plan to cut the Federal deficit in half over the next 5 years is laudable and we will work with you to achieve this goal, and I am hopeful that the Senate and the House will agree soon upon a budget resolution that will be the framework for our work for the remainder of the year.

We appreciate your leadership in defining priorities and thank you for the good work that you do as Director of the Office of Management and Budget.

STATEMENT OF JOSHUA B. BOLTEN

Senator BOND. With that introduction, Director Bolten, we would be happy to have your views.

Mr. BOLTEN. Thank you, Mr. Chairman and Senator Murray. Thank you for your warm welcome.

I am, indeed, pleased to be here this morning to discuss the President's 2006 budget request for the Office of Management and Budget and also discuss the broader budget issues that each of you raised in your opening statements.

I would like to begin with a brief review of the President's overall 2006 budget request. The 2006 budget funds efforts to defend the homeland from attack. We are transforming our military and supporting our troops, as they fight and win the global war on terror. We are helping to spread freedom throughout the world. We are promoting high standards in our schools, among many other priorities reflected in the President's budget.

Those policies, especially tax relief, have helped create millions of new jobs, a rebound in business investment, and record home ownership rates. In order to keep our economy strong and achieve the President's goal of cutting the deficit in half by 2009, as you mentioned, Mr. Chairman, we need to continue the President's pro-growth policies and, importantly for this discussion, exercise even greater spending restraint than we have in recent years.

During the first term, the President committed to spend what was needed on the war on terror and to protect the homeland, and he committed to enforce spending restraint elsewhere. Because of this focus, deficits are below what they otherwise would have been. With continuation of the President's pro-growth economic policies and responsible spending restraint now, we will remain on track to cut the deficit in half by 2009 to a level that is well below the 40-year historical average deficit of 2.3 percent of GDP.

The administration proposes to tighten spending further this year by limiting the growth in overall discretionary spending, even after significant increases in defense and homeland security, to 2.1 percent. Mr. Chairman, you highlighted that in your opening remarks, and you did note that that is less than the projected rate of inflation, I believe. If you did not note it, I note it now. So, Senator Murray, your comments, as well, are on target, which is to say that in those non-security areas, the President is proposing a spending level that is below inflation—so a real cut.

In non-security discretionary accounts, the President's proposal would cut spending by nearly 1 percent, 0.7 percent, as you pointed out, Mr. Chairman. That is the tightest such restraint proposed since the Reagan administration.

The budget also proposes more than 150 reductions and eliminations in non-defense discretionary programs, saving about \$20 billion in 2006, and an additional set of reforms in mandatory programs, saving about \$137 billion over the next 10 years. So, Mr. Chairman, we are not focusing our efforts exclusively on the discretionary side of the budget. We also believe that it is important to begin the process of digging in on the mandatory side.

To ensure the Federal Government spends taxpayer dollars most effectively, the administration continues to implement the Presi-

dent's Management Agenda (PMA). The PMA helps individual agencies and programs focus on and produce results. It promotes this goal through several key components: strategic management of human capital, competitive sourcing, improved performance and reporting standards, integration of budget policy with performance measures, and finally, Mr. Chairman, the one that you highlighted in your opening statement: electronic government, e-government, initiatives, and how we spend our IT money.

OMB has successfully designed and implemented the Program Assessment Rating Tool, or PART, to help agencies measure the success of their programs, focus efforts to improve program performance, and set budget policy accordingly.

Consistent with the President's overall 2006 budget proposal, the Office of Management and Budget has itself submitted a disciplined request. OMB's total budget request amounts to about \$75 million, the same as was appropriated for the agency in the 2005 budget process.

To achieve this spending restraint, OMB is pursuing cost savings wherever possible. As in the past, OMB is achieving cost savings largely through reductions in staffing. We are principally an agency of people and that is the only place we can really go to find the savings. Last year, OMB was appropriated \$1.6 million less than the President's budget request. In addition, OMB, like other agencies, absorbed a pay raise of 3.7 percent. To accommodate these lower funding levels, we have reduced OMB staff from 527 positions in fiscal year 2001 to 510 positions in 2004 to 490 positions anticipated in 2005 and 2006.

With these lower levels of resources and staffing, we believe OMB can continue to deliver high-quality performance and fulfill our many important core responsibilities. Our best known of these responsibilities is the preparation of the President's annual budget. In addition, our responsibilities include oversight of other budgetary matters, management issues, the administration's legislative proposals, regulatory reforms, procurement policies, and other important subjects. We assure that all such proposals are consistent with the relevant statutes and presidential objectives. In meeting these responsibilities, OMB is prepared to work within the constraints of a tight budgetary environment.

I look forward to working with the Congress and with this committee in particular to develop a final budget that is consistent with our goals of spending discipline and focusing on priorities.

PREPARED STATEMENT

Mr. Chairman, that concludes my prepared statement. I know you and Senator Murray have raised a number of issues in your opening statements. I would be happy to respond to any of them in questions.

[The statement follows:]

PREPARED STATEMENT OF JOSHUA B. BOLTEN

Mr. Chairman, Senator Murray, members of the subcommittee, I am pleased to be here this morning to discuss the President's fiscal year 2006 budget request for the Office of Management and Budget (OMB).

WINNING THE WAR ON TERROR, PROTECTING THE HOMELAND AND STRENGTHENING THE
ECONOMY

I would like to begin with a brief review of the President's overall fiscal year 2006 budget. The 2006 budget funds efforts to defend the homeland from attack. We are transforming our military and supporting our troops as they fight and win the Global War on Terror. We are helping to spread freedom throughout the world. We are promoting high standards in our schools. The President's policies in this budget, especially tax relief, have helped create millions of new jobs, a rebound in business investment, and record homeownership rates. In order to keep our economy strong, and achieve the President's goal of cutting the deficit in half by 2009, we need to continue the President's pro-growth policies and exercise even greater spending restraint.

During the first term the President committed to spend what was needed to win the War on Terror and protect the homeland—and he committed to enforce spending restraint elsewhere. Because of this focus, deficits are below what they otherwise would have been. With continuation of the President's pro-growth economic policies and responsible spending restraint, we will remain on track to cut the deficit in half by 2009, to a level that is well below the 40-year historical average deficit of 2.3 percent of GDP.

The administration proposes to tighten spending further this year by limiting the growth in overall discretionary spending, even after significant increases in defense and homeland security, to 2.1 percent—less than the projected rate of inflation. In other words, under the President's 2006 budget, overall discretionary spending will see a reduction in real terms. In non-security discretionary accounts, the President proposes to cut spending by nearly 1 percent—the tightest such restraint proposed since the Reagan Administration.

The budget also proposes more than 150 reductions and eliminations in non-defense discretionary programs, saving about \$20 billion in 2006, and an additional set of reforms in mandatory programs, saving about \$137 billion over the next 10 years.

DELIVERING RESULTS

To ensure the Federal Government spends taxpayer dollars most effectively, the administration continues to implement the President's Management Agenda (PMA). The PMA helps individual agencies and programs focus on and produce results, and promotes this goal through several key components: strategic management of human capital; competitive sourcing; improved financial performance and reporting standards; electronic government (e-gov) initiatives; and integration of budget policy with performance measures.

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OMB'S BUDGET

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With these lower levels of resources and staffing, we believe OMB can continue to deliver high-quality performance and fulfill our many important core responsibilities. Our best known of these responsibilities is the preparation of the President's annual budget. In addition, our responsibilities include oversight of budgetary matters, management issues, the administration's legislative proposals, regulatory reforms, procurement policies and other important subjects. We assure that all such proposals are consistent with relevant statutes and Presidential objectives. In meeting these responsibilities, OMB is prepared to work within the constraints of a tight budgetary environment.

I look forward to working with the Congress to develop a final budget that is consistent with our goals of spending discipline and focusing on priorities.

Senator BOND. Thank you very much, Mr. Director. We look forward to working within that constrained budget for OMB, but I would like to go back to some of the questions I raised in my opening statement.

Please give me your rationale for eliminating CDBG. You just went through a drill with the interested parties to figure out how to make CDBG work better. It has had tremendous impact in many communities, a favorable impact. The joint HUD/OMB Grantee Outcome Measurement Working Group came up with these. We have got communities with existing projects relying on CDBG funding, especially with section 108 loan guarantees. Why did you decide to cut off this program?

COMMUNITY DEVELOPMENT BLOCK GRANT

Mr. BOLTEN. Mr. Chairman, the judgment about the consolidation of these programs, not their total elimination, but the consolidation of these programs into one single place had a lot to do with how we best target our resources. The administration's judgment about how to rationalize the many economic development programs that exist today in government was focused on trying to make sure that we make the best use of the limited resources we have available. We are, indeed, proposing reducing those resources overall, but also targeting those resources on the areas most in need.

Right now, through the CDBG program and the CSBG program, we have a lot of money going out to the States and localities largely on a formula basis with the Federal Government not really able to tell what it is getting for its money. It has become almost an entitlement, if you will, on the State revenue sharing side of the ledger.

What we are trying to do with this proposal is make sure that we are applying the money that we do have most effectively to meet economic development goals. Right now a lot of CDBG money and CSBG money goes toward worthy goals, many of them duplicated in other Federal programs. What we would like to see this money do is not simply support a variety of local safety nets that are provided for those most in need in our country, but ensure that what we are doing with the money is promoting economic development in the community that will make the social safety net less necessary.

Senator BOND. Community development, from my experience, is significantly different than general economic development, what the Commerce Department does. That is why they set up the Department of Housing and Urban Development. From my personal experience, I can tell you that there is a very vital role for communities to play in the community development which develops strong communities in relation to housing.

Essentially you are saying you do not want a Housing and Urban Development Department. You do not want that function. I would think that you would have a proposal to continue the reforms that you have worked out with respect to CDBG to make sure that that program works, unless you honestly believe that community development is not a worthwhile goal. Are you saying that?

Mr. BOLTEN. No, sir, Mr. Chairman. The administration does strongly believe in community development as a worthwhile goal. The question is what to do with our available Federal dollars. As

Secretary Jackson testified before you, he said that he thought the CDBG formula approach has become less targeted than it ought to be on those communities with real development needs. The consolidation of all these programs in the Commerce Department, which has the best experience with creating public/private partnerships to promote economic development, is the approach that the administration has chosen to try to target those needs.

A lot of communities, we believe under the proposal we have put before you, will actually end up with more money than they do under the existing formulas. What we are trying to do is make sure that those communities most in need and those most likely to make good use of Federal dollars in promoting an environment where there are jobs, where there is housing, that is where we are trying to put the money, and that was the purpose of the proposal that the President put before you.

Senator BOND. I just think that is flat wrong.

Let me ask you about the practical problems. HUD staff has experience and expertise, local relationships. How do you expect the Commerce program to implement the program in 2006? You have left the salaries and expenses in CDBG for administering the program. Do you expect to take the CDBG staff into Commerce? How are the communities which use section 108 loan guarantees going to be made whole? These are some real practical problems I see.

Mr. BOLTEN. There are some important practical problems, Mr. Chairman. It has been our contemplation to move some of, at least, the core staff over to the Commerce Department. Should the Congress in its wisdom decide to support the President's proposal, I can assure you, we will work very closely with you and other interested members to make sure that the transition is smooth and not disadvantageous to any of the programs involved.

Senator BOND. Thank you, Director.

Senator Murray.

AMTRAK

Senator MURRAY. Mr. Bolten, for some time now, I have been trying to figure out who really speaks for the administration when it comes to your budget and policies for Amtrak. As you know, your budget requests zero for Amtrak, and the President's budget states explicitly—and I want to read it. It says, "With no subsidies, Amtrak would quickly enter bankruptcy which would likely lead to the elimination of inefficient operations and the reorganization of the railroad through bankruptcy procedures. Ultimately, a more rational passenger rail system would emerge."

Now, I have heard it on good authority that your administration's stated expectation to put Amtrak into bankruptcy was not crafted by anyone at the Department of Transportation but was, rather, crafted in your office. Secretary Mineta has been crossing the country making speeches and telling the press that it is not the administration's goal to put Amtrak into bankruptcy.

Can you tell me this morning, is this language in the President's budget correct, or is Secretary Mineta correct?

Mr. BOLTEN. Well, I think, Senator Murray, they are both correct. All of our proposals, are prepared in close coordination between the relevant agencies and OMB. It is not the objective of the

administration to put Amtrak into bankruptcy, but having failed for several years now to achieve the kinds of necessary reforms in the Amtrak system, we felt that at this point we have no alternative but to propose a budget that may, indeed, have that effect in order to get the kind of action and reform that we need.

I thought Secretary Mineta put it very well in a New York Times op-ed that he published about 2 months ago. He said, "there are some who have suggested that our reforms are aimed at killing Amtrak. Not true. If we wanted to kill Amtrak, we would not have to lift a finger. We cannot save intercity passenger rail service by burying our heads in the sand and simply shoveling more money into a system that cannot help but fail."

Senator MURRAY. Well, can you answer me, does the administration want to reorganize Amtrak in bankruptcy or keep it out of bankruptcy? Which one?

Mr. BOLTEN. We would actually be happier to do it without a bankruptcy, but our proposals to do it in that fashion have so far—

Senator MURRAY. So you intend to have it in bankruptcy to reorganize it.

Mr. BOLTEN. We believe it needs to be reorganized one way or the other. If bankruptcy is the only option, then we believe that if we are to be responsible with the taxpayers' dollars, that is the only way to do it.

Senator MURRAY. Earlier last month, Secretary Mineta had an interview with National Public Radio on the administration's plan for Amtrak, and the NPR reporter pointed out that the President's budget requests zero for Amtrak, and then he asked, what is the real figure that the administration is willing to spend on Amtrak? Secretary Mineta answered, probably in the area of about \$1.5 billion to \$2 billion, and then he went on to point out that Amtrak was woefully behind in maintaining tunnels and other infrastructure under its control.

Do you concur with Secretary Mineta's remarks that the administration is willing to spend between \$1.5 billion and \$2 billion on Amtrak next year?

Mr. BOLTEN. I do not want to put a specific figure on it at this point, but the administration is, indeed, prepared to spend more money on Amtrak in the future if we get a rationalized system that does, as Secretary Mineta was suggesting in his remark, suggest on making sure that the infrastructure is in place for the continuing effective operation of those portions of Amtrak that can be commercially competitive. But what that requires is a complete reorganization and restructuring of Amtrak so that we do focus our resources on those portions that can, in fact, be commercially competitive. That is a lot less than what is currently out there and which has been persistently subsidized with taxpayer dollars without any prospect realistically at this point of ultimately achieving what was the original objective of Amtrak, which was putting this rail system on a commercially sound basis.

Senator MURRAY. Well, earlier this year, I was very critical of Amtrak's board of directors. For the first time, that board failed to articulate a budget request to Congress at the beginning of the year as it is called to do in the Rail Passenger Service Act. It ap-

peared to me that since every one of the Amtrak board members are now Bush appointees, they did not want to articulate a budget that was different from the President's.

Today, however, in the Russell Senate Office Building across the street from us, the Amtrak board is revealing its own reform plan for the railroad to the Senate Commerce Committee. The Amtrak board chairman is testifying that the board is requesting the Appropriations Committee provide \$1.82 billion for the railroad for next year. That is more than a 50 percent increase over the current level of funding. The board will argue that reforming Amtrak costs money and that the railroad simply cannot survive on its current level of spending.

In fact, the DOT Inspector General is going to testify this morning as well that simply maintaining the current Amtrak system will require an increase of between \$200 million and \$300 million above the current funding level.

Mr. Bolten, now that the board of directors, made up entirely of the President's appointees, has articulated a funding request to Congress, is OMB prepared to submit to us a funding request to Congress for Amtrak?

Mr. BOLTEN. Senator Murray, we have submitted the President's funding request for Amtrak to the committee.

Senator MURRAY. For zero.

Mr. BOLTEN. We have included about \$300 million for the maintenance of some intercity rail in that category.

While I have not had a chance to review what the board is presenting, I am told that they do have some important steps forward in reform. We obviously do not agree with them on the amount of money they want to put in, but there are enormous anomalies in this system that need, I think at this point, urgently to be corrected—

Senator MURRAY. So you will not endorse the \$1.2 billion that they are asking for?

Mr. BOLTEN. No, I will not, Senator.

Senator MURRAY. Well, our committee is going to mark up the appropriations bill likely in July. Can we expect you to submit a budget request for Amtrak by the July 4th recess?

Mr. BOLTEN. Senator, you have our request before you.

Senator MURRAY. Which is zero.

Mr. BOLTEN. For those portions of Amtrak not related to intercity rail, yes.

Senator MURRAY. Well, that is going to make it very difficult, Mr. Chairman.

Senator BOND. Thank you, Senator Murray. That is the question I was prepared to ask. When are we going to see a responsible proposal for reform from the administration? This proposal to push Amtrak into bankruptcy could cause tremendous disruption. They have mortgaged Penn Station. This is a disaster. I would be willing to work with you on a responsible reform program, but to zero it out, the costs are going to be significant. The Acela trains are out of operation now. That is 20 percent of the revenue. We have got a disaster on our hands, and throwing \$364 million at intercity service, when you have the tremendous costs that the bankruptcy

of Amtrak is going to cause, without any responsible plan for reform, just is not credible.

I hope that with the Commerce Committee and the administration's recommendations, we will get some kind of realistic proposal prior to our marking up in July because I do not know what we can do with the request that you presented. It is designed to fail. So anyhow, you made your point, but I tell you that this is a disaster that is going to focus right on OMB and the person who controls it.

Let me move to other block grant issues. The Capacity Building LISC/Enterprise program and CDFI are very important. The Bank Enterprise Act gets banks into underserved areas where there are no traditional financial institutions. LISC provides significant funds to provide nationwide leadership for developing and training existing nonprofits. This gives them an opportunity to compete for block grant funds.

Why are you backing away from these programs and why do you think it is time to cut off funding for these elements that are essential in underserved areas?

Mr. BOLTEN. Mr. Chairman, I am not in a good position to speak to all of the individual details of those, but I know that the judgment of those who put this program together was that we could best serve all of those needs through one consolidated program. I believe a lot of those needs and desires can still be met through the consolidated program we have proposed at the Commerce Department. I would like to give you more information, if I may, for the record.

[The information follows:]

STRENGTHENING AMERICA'S COMMUNITIES

The President's Budget supports the Federal Government's role in economic and community development. The current Federal approach is not optimally designed to achieve results for our communities. During 2004, the administration reviewed the effectiveness and structure of Federal economic and community development efforts and found several weaknesses in the current design of these programs. The Strengthening America's Communities Initiative (SACI) proposes to consolidate 18 programs into a unified grant program. The new program, within the Department of Commerce, will clarify the purpose of Federal development assistance, simplify the grant process, target funds to those communities most in need of assistance, and hold grantees accountable for results in exchange for flexible use of the funds.

While some individual programs or projects within our communities have been successful, the delivery of such resources is often duplicative and overly complex. The administration believes there is a better way. If one were starting from scratch, no one would design a Federal assistance system that has 18 grant programs spread across five cabinet agencies. The administration believes local flexibility is more effective than Federal control. Economic and community development activities such as those provided by the LISC/Enterprise and CDFI programs, which you mentioned, will remain eligible activities under SACI. In exchange for this flexibility, SACI will include accountability measures that require communities to demonstrate progress toward locally-selected goals for development. The administration also believes that eligibility and funding criteria should target communities that are most in need of assistance.

We look forward to continuing to work with the Congress to determine ways to improve the Federal approach to economic and community development to ensure that taxpayer resources are spent not on wealthy communities, but on the distressed. In the end, these investments should generate measurable results for low-income persons and economically distressed areas.

Senator BOND. Well, I do not see how that is going to work.

This is a good one: where are you going to get the \$2.5 billion from the housing certificate fund, Section 8? I assume that you have some rationale. Where are these rescissions going to come from? Where is that money?

Mr. BOLTEN. Mr. Chairman, the figure we proposed for rescissions is, I believe, consistent with the historical range of rescissions that have been available each year.

Senator BOND. That is before we reformed the program. Mr. Director, we reformed the program because there were these problems. We reformed it so that we would not have these huge rescissions. And now you are assuming that the program operates as it has in the past, but we worked with HUD and reformed the program. And I do not know where you are going to find them. Historically they were there. Now they are not there.

Mr. BOLTEN. Well, we believe, Senator, that they are still there, that there still will be substantial unobligated balances. Whether the exact figure ends up being \$2.5 billion or not may be open to discussion, but we believe that even with the reforms in place, there will be substantial balances available—

Senator BOND. Well, I will be most anxious, and I am sure by July 1 you and HUD will be able to tell us where that money is.

Mr. BOLTEN. I expect we will know quite a bit more by July.

Senator BOND. If you would give us the methodology for the record. I would like to know how you are coming up with it because I do not believe it is there.

[The information follows:]

HUD RESCISSION

Each year, since 1998, large rescissions have been taken from this account—an average of \$2 billion per year. These funds represent recoveries of amounts previously appropriated and obligated that are in excess of current needs.

[In millions of dollars]

Fiscal Year	BA (Pre-Rescission)	Rescission
Fiscal year 2001	13,941	(1,947)
Fiscal year 2002	15,641	(1,589)
Fiscal year 2003	17,112	(1,600)
Fiscal year 2004	19,257	(2,844)
Fiscal year 2005	20,064	(1,557)
Fiscal year 2006 proposed	20,917	(2,500)

As is the case each year, HUD may have a general idea ahead of time, but they will not determine which funds from which accounts will be used to satisfy the rescission until June or July of 2006.

While the estimate of excess funds available for rescission may change, there is every reason to believe based on past experience that sufficient funds will be available for rescission.

In addition, the final appropriations language has been sufficiently broad, and the President's Budget requests similar language again for fiscal year 2006, to enable the Department to look to other sources of funds to rescind within the Department should there be insufficient funds within this account. In 2003, for example, Congress enacted a rescission of \$1.6 billion which was satisfied with \$1.17 billion in unobligated balances in the Section 8 account and \$426 million in unobligated balances from other accounts.

AIP PROGRAM

Senator BOND. Let me ask you, before I turn it over, about the AIP program. This cuts the entitlement for primary airports to be cut in half. The Alaska airport supplemental is reduced by 50 percent. Why did you decide to cut this program?

Mr. BOLTEN. Mr. Chairman, let me give you a response on that for the record.

[The information follows:]

AK AIRPORT (AIP PROGRAM)

The 2006 Budget provides \$3.0 billion for the Airport Improvement Program (AIP). These resources are sufficient to fund construction of all planned new runways and tarmacs, and remain high compared to historical levels (as recently as fiscal year 2000, the AIP program was funded at \$1.9 billion). The Budget also includes language that should alleviate your concerns about the entitlement for primary airports and the Alaska airport supplemental. Under the approach included in the Budget, the basic structure of the entitlement formulas are preserved with airports experiencing very modest reductions (less than 10 percent) in entitlement amounts. The Alaska supplemental would fare even better, with no loss of funding.

Senator BOND. All right.

I see that Senator Bennett has joined us, but I will go on to Senator Murray for the next question, and then turn to Senator Bennett.

Senator BENNETT. Thank you.

Senator MURRAY. Thank you, Mr. Chairman. Let me just echo the chairman's remarks. I look forward to seeing the list from you and Secretary Jackson on where those rescissions are going to be before our markup. I simply do not see how we can do that without your request in.

But I want to go back to one thing on Amtrak before I move on. The \$360 million that you were talking about in the budget is by law just for mass transit systems—I know you understand that—operating over Amtrak property. It is not for Amtrak trains. So the issue we are concerned about is what the board is testifying before Commerce today and those needs.

Let me ask you one other question on Amtrak. It is my understanding that the brake problems that have been discovered with the Acela trains that we are hearing so much about is not going to be repairable very quickly. In fact, the Acela trains may stay parked, we hear now, for some months, and Amtrak may lose as much as \$60 million in net revenue as a result. That additional \$60 million loss may eat up almost every dollar of working cash that the railroad can generate prior to the beginning of next fiscal year. I wanted to find out if your agency was monitoring that situation and the revenue impact on Amtrak.

Mr. BOLTEN. We are monitoring it. We do know that they have some working capital available carried over. I had heard even a slightly larger figure than \$60 million was possible. I know they are carrying over some working capital in that range, but Senator, we will keep an eye on that situation.

Senator MURRAY. It is my understanding Secretary Mineta is saying he does not want to put Amtrak into bankruptcy. So is it possible that you are considering a supplemental appropriation to deal with this dramatic loss of revenue?

Mr. BOLTEN. We are not considering one at this time, but we are monitoring the situation.

HANFORD SITE

Senator MURRAY. Okay. I appreciate that.

I wanted to turn to a different topic for a minute and ask you, while you are here, about the budget for the cleanup of Hanford nuclear reservation. You may know that in the past month we have had over 1,200 workers at Hanford who have received their layoff notice, and some of those are attributable to seismic issues at the waste treatment plant. Others are attributable to the fact that funding shortfalls are expected in fiscal year 2006.

This year the budget you sent over cuts funding for environmental management programs by \$548 million nationwide. Hanford alone makes up \$297 million, about 54 percent of that cut in funding. And we want to know why in my State you are proposing cuts that are falling so disproportionately on Hanford compared to other sites in the Nation?

Mr. BOLTEN. Senator, let me come back to you with a more detailed response, but my recollection about that situation was that that was a judgment about how much could reasonably be spent in the coming year, that there has been, I believe, over the several recent years an acceleration in spending on the Hanford cleanup, and that the folks who have worked with the spending flow on this believe that this was a reasonable amount to be spending in this year and still keep us on track to getting the cleanup done on time.

[The information follows:]

HANFORD

The budget requests funding to meet the administration's commitments for cleanup at nuclear sites, recognizing that uncertainties can limit cleanup activities. The President's request for fiscal year 2006 for Hanford is \$1.8 billion, a 20 percent increase above the fiscal year 2001 enacted level. At Hanford, there are legal uncertainties associated with tank closures brought on by Washington State Initiative 297 and related lawsuits, which have introduced uncertainties in the areas of waste importation, permitting, and waste retrieval and disposal activities. Additionally, since the State of Washington was not included in section 3116 of the Ronald W. Reagan National Defense Authorization Act for fiscal year 2005, which resolved radioactive waste classification issues in Idaho and South Carolina, the administration is evaluating how to proceed.

The 2006 budget request takes into account these legal uncertainties. It also reflects completed work associated with the waste tanks, including removing liquids from the single-shell tanks.

Senator MURRAY. Well, I do not understand how the Federal Government is going to meet its legal requirements under the Tri-Party Agreement with funding cuts of that size. I assume you are aware of the Tri-Party Agreement.

Mr. BOLTEN. I am.

Senator MURRAY. The DOE's contract for a waste treatment plant calls for Bechtel to receive \$690 million each year, and that steady multi-year stream of \$690 million per year was chosen to avoid a situation where there would be huge year-to-year swings in the funding that is required to complete the plant. But for fiscal year 2006, the administration wants to provide \$64 million less than the contracted amount. So the President's budget really ap-

appears to be guaranteeing a delay in the start of the waste treatment plant, and that is in violation of the Tri-Party Agreement.

Can you guarantee me that the administration will request funding above the \$690 million level in future years so we avoid a delay of the waste treatment plant and keep its word with the Tri-Party Agreement?

Mr. BOLTEN. I am not in a position to guarantee you what specific funding levels will be in any particular year, but I would like to come back to you and show you and your staff the spending stream that the Department of Energy has proposed to ensure that we do get the Hanford site cleaned up within the scheduled—

Senator MURRAY. Okay. Well, I would very much like to meet with you and go through that because I do not see how on earth we are going to meet the legal requirements of the Tri-Party Agreement with these funding deficits. So I would appreciate that.

Senator BOND. Thank you, Senator Murray.

Now we turn to Senator Bennett. Since we have had a couple of rounds, if you would like to take two rounds, we will give you the opportunity to explore your areas of interest with the Director.

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

Mr. Director, you know, but we acknowledge, you have one of the toughest jobs in Washington, and it is always easy to be a politician when there is a surplus because you can meet everybody's needs and be a hero. When you are fighting a deficit, it is always difficult, and to use the label of an old movie, you become Dr. No. That is a tough position to be in. I sympathize with you.

You have been around town long enough to know that you are being set up when I make those kinds of kind comments in advance of where I am going.

Mr. BOLTEN. Senator, you missed the earlier part of the hearing in which Senators Bond and Murray were kind enough to skip those comments.

They moved directly to what follows.

STRENGTHENING AMERICA'S COMMUNITIES INITIATIVES

Senator BENNETT. They moved directly to it. All right.

I am chairman of the Agriculture Appropriations Subcommittee. The President's budget requests no funds at all for the Rural Business Opportunity grant program, Rural Business Enterprise grant program, Rural Empowerment Zones, and Enterprise Community grant program, all of which are administered by the Rural Development at USDA.

The budget does propose a newer and smaller community development grant program to combine these programs with others to be administered by the Department of Commerce. I wonder what expertise the Department of Commerce has with respect to rural community development that causes you to take this out of USDA and put it in Commerce because the pressure, obviously, is on me to find those funds, to take care of it in agriculture. Have you proposed an increase in Commerce to make up for the fact that this money is all taken away from USDA, or am I getting into the weeds and something you are not personally familiar with?

Mr. BOLTEN. No, sir. I am not intimately familiar with the individual programs, but overall we have proposed a consolidation of

many programs, about 18 programs, spread across at different agencies, including the Agriculture Department, but primarily from HUD, into the Commerce Department. One of the reasons why we have chosen to implement a consolidation in the Commerce Department is that that is where there is, we believe, the best expertise on economic development overall, whether it be rural or urban, and also that it is an agency that is accustomed to promoting public/private partnerships, which we believe are part of the answer toward achieving economic development in areas that have lagged so far.

Senator BENNETT. All right. I suppose you are not the person for me to ask this, but before I can be comfortable in straight-arming everybody who has typically come to the Agriculture Subcommittee for this kind of support, I think I need to have some reassurance from the Department of Commerce that they do know what they are doing and they are not just going to cut this off willy-nilly and say, okay, you are out because we have consolidated and then we are going to take what money we have and it is less money overall and give it to the programs we are familiar with, and because rural America is the stepchild, we are just going to say you are out and injured.

You are not the one to direct the Commerce Department to come talk to me, but I think I will use your answer as a reason to say to them, you ought to be talking to our subcommittee and telling us what you are going to be doing in these areas because cutting them out entirely from the President's budget, without the kind of explanation you have given us here, has caused great angst, as I am sure you can understand.

Mr. BOLTEN. Senator, I think it is a legitimate question and I will take the opportunity to ask Secretary Gutierrez to be sure that you are fully briefed on how they would intend to deal with the situation, in which we acknowledge we are consolidating programs with less money available, but what we will be trying to do is target Federal monies where it is, (A), likely to be most effective and, (B), to areas of the most need.

CDBG FUNDING

Senator BENNETT. That leads us to what I assume may have been raised before I got here. This is CDBG money with respect to HUD. Can you tell us in what way CDBG has been considered ineffective? I understand that word has been used to describe it. If I am covering ground that has already been covered—

Senator BOND. We have asked the question and have not gotten any answers.

Senator BENNETT. There is no such thing as repetition in the Senate.

So I would like to hear your rationale.

Mr. BOLTEN. Senator, the question has not been asked in quite that way.

I believe the formal rating of the CDBG program from our assessment system was "results not demonstrated" because what goes on with a lot of the CDBG money is that it goes out by formula to localities, and the Federal Government then has no particular way to track what happens to it and, most important, what

sort of results are being achieved with the Federal money. It has become essentially a Federal revenue sharing program.

What we are trying to do with the President's proposal of consolidating these various programs, including CDBG, into the Commerce Department is ensure that we focus our resources where we believe they can be most effective, where the Federal Government can track results, and insist on accountability for the use of the money rather than just sprinkling around funds to what, in many cases I am sure, are laudable goals but not necessarily the top Federal priority nor in a way that permits the Federal Government to tell the taxpayers how the money is being spent.

Senator BENNETT. Again, that sounds very logical, and once again, there is great angst on the part of people involved in the program—they are not only laudable, but in many cases absolutely essential, particularly in housing—that somehow the Commerce Department is not the place where they feel comfortable going with their concerns.

I am perfectly willing to support something that says just because inertia has kept it one place, does not mean it needs to stay here. I know how damaging inertia can be. I tell people the problem with inertia is not inertia at rest, which is the accusation that is usually made about civil servants. It is inertia at motion, that a body in motion tends to stay in motion and in the same direction, long after the direction ceased to make sense. So I am very sympathetic with the general position you have just outlined.

But that having been said, there are a lot of folks who are very, very concerned that the Commerce Department has no sympathy or no understanding or no expertise with which to deal with housing problems.

I am as anxious to make sure that we get our financial house in order in a macro sense as anybody, but I see the specifics of the people who are living on the edge and literally from year to year in terms of their Section 8 funds, their affordable housing. It is frustrating that we cannot give them any sense of permanence. And these are not people who are living well by your standards or mine. They are living very much on the edge, and every year the Congress has to rescue the housing funds that tell them you can stay in your home for 1 more year before this program is going to be challenged again and show up in the budget thing. And they show up in my office in Salt Lake with "am I going to be able to keep my house? And if I cannot, I have no idea where I am going." These are people in their 70's and 80's who are hanging on, as I say, from month to month. Every year I say, well, I will talk to Chairman Bond, and every year Chairman Bond comes through. So I am a hero in Utah because of the work he does here.

What reassurance can we give these people in this kind of situation that Commerce has the expertise, has the understanding, has the concern that these programs represent?

Mr. BOLTEN. Well, first of all, I think the kinds of concerns you identified should be addressed through the housing programs that are specifically directed toward that. But beyond that—

Senator BENNETT. Yes, but they need the money and the money gets chopped off every year or cut back every year. And we have to restore it in this committee.

Mr. BOLTEN. But I believe that is an issue separate from the CDBG issue where the money is going out to community development organizations. I will ask Secretary Gutierrez to address it with you when he speaks about the agriculture side, but I think Secretary Gutierrez can give good comfort about how they would handle the community development needs that are intended to be addressed by CDBG.

Senator BOND. Thank you very much.

Senator BENNETT. Thank you, Mr. Chairman.

Senator BOND. Senator Stevens.

ESSENTIAL AIR SERVICE

Senator STEVENS. Thank you very much.

Mr. Director, it is nice to be with you today.

I too have some problems, but each of them requires a little recitation of history. The first is Essential Air Service. When we decided that we were going to terminate the old Civil Aeronautics Board, which directed that every place that wanted air service would get it, and it got it at a substantial cost to the Federal Government indirectly, we created this program to assure that the small areas, which would lose air service because they were not economical, would have at least a minimum amount of service.

In my State, as you know, 78 percent of the travel between cities is by air because there are no roads. Congress made a decision a long time ago not to build roads, particularly after about one-third of our State was withdrawn for wild and scenic rivers and parks and wildlife refuges, et cetera. It would be very difficult to get through them, and the roads would have to go around those things.

This has been a very meaningful program in my State and, as a matter of fact, is the only lifeline for many people who live in the villages, of which we have 231 now. The difficulty is this. We also tied together the Postal Service delivery of mail to those places by creating the bypass mail system which requires that the postal cargo go to hubs and from those hubs, they fly out the mail to villages. We tie the two together so we have passenger seats and cargo going at least three times a week to these villages. That is their total lifeline.

Some of them were supported for many years by riverboats or boats that went up and down the coast, which as you know, is half the coastline of the United States. There was one boat that went up one time and came back called the North Star.

Now, it looks like it is an expensive program, but if you do away with it, the costs are going to be extremely higher. We still have the responsibility to deal with those places, and most of the travel through that area is somehow or other federally supported anyway through BIA, the Indian Health Service, and others. Unless you want to buy some airplanes and fly BIA around or fly the Indian Health Service around, the cheapest way to do it is through combining both the mail and cargo and passenger service. It cannot work unless you have the Essential Air Service contribution.

Now, you have a proposal that requires matching funds and the assistance depends upon the distance to the nearest large or medium airport. Well, we are, as you know, one-fifth the size of the

United States. Some of those villages are 500 miles from the nearest real airport and a couple of them even further than that.

I would urge you to look at this. I understand your concept of having in some areas, where they have a capability of contributing local matching funds, that it might be possible. But in areas such as ours where the principal beneficiaries of these are the native villages, the application of your new principle will just increase Federal costs. You will be chartering airplanes if you do not buy them. I would urge you to take a look at that.

Only about 35 of the communities actually benefit from the program but they are communities that are tied into the bypass mail system too. There is a joint subsidy to maintaining this traffic. And I will not ask for an answer to that because I just think you ought to take a look at it and study it.

Mr. BOLTEN. We will take a look at that.

EDA

Senator STEVENS. Now, next is the EDA. As the State that is coming into the 21st century after everybody else, we just came on board with EDA in recent years. It really does not even have an office in the State. It came to us from either San Francisco or Seattle, and those people came up at fishing time and they looked around and put a few bucks around the place, but they really did not plan how to bring these communities into the 21st century.

Some time ago, I negotiated with the Department and we agreed to an obligation that they would put \$15 million in funding for development projects for Alaska over a period of years. This is the last year of that. But we got that deal because we showed them that we had been totally left out. Either we are going to have some economic development that helps these people come into the private sector and be contributors, or they are going to continue to be one of the faucets we have to turn on and off in terms of Federal assistance forever.

Again, I urge you to take a look at the problem of elimination of the EDA in terms of our area. It is just unfair. Hawaii and Alaska became a State in 1959. A lot of the Federal officials did not even discover us until 1969, and that is when a brash, young lawyer came to the Senate.

Senator BOND. They have been paying attention ever since.

Senator STEVENS. They have been paying a little bit of attention, but it took them 20 years to wake up.

RURAL COMMUNITY ADVANCED PROGRAM (RCAP)

Thirdly, the elimination of the rural community advanced programs, the RCAP, within the agriculture bill. Here again, we have two monstrous areas that are capable of agriculture production. We finally have one agriculture county station in Alaska. We have one and they get limited assistance. But we have been using the rural community development grants and some of these others to reach out to the villages and provide them with basic sanitation, basic clean water, and basic concepts of maintaining health. The result: we have reduced the cost to the Indian Health Service. We have increased the performance of these children in school. And now, along comes the concept that this is going to be done away with.

There is one in particular, the high cost energy grant. We have places that are paying \$5 a gallon for fuel. They are paying 28 cents probably in the rest of the States. We have been trying to construct local power plants using local fuels to try and see if they can get away from buying and having fuel transported. All that is transported in there is at government expense. So again, by eliminating this program, we are eliminating the inching that we are doing, inching away from total Federal dependency on their lives.

I would like for you to sit down and talk to some of your people sometime.

By the way, most people do not know it, but some of the outer islands of Hawaii have problems very similar to ours. That is why the four of us are with each other all the time because we have similar problems. Actually Hawaii is larger than Alaska, if you fill in the water in between the islands. You know what I mean?

They have problems out there in the periphery that are as bad as ours along the coasts and in the interior and up along the Arctic coast.

Those two offshore States need this program. We need a way to try to find a way to discuss it with your people because, not meaning to be offensive, but your recommendations are one-size-fits-all.

Senator BOND. Mr. Director, I would suggest that this is an opportunity for you to schedule a meeting with Senator Stevens, Senator Murkowski, Senator Inouye, Senator Akaka. I think it would be a very informative session for you. I wish I could be a fly on the wall to watch, but I would urge you to have that.

Senator Kohl.

Senator STEVENS. Just so you know, Josh is a close friend, as a matter of fact, and I hesitate to make these suggestions to him in public. I probably could have made them in private, but I want them on the record anyway, Josh.

Senator BOND. As they say in the business, harsh letter to follow.

Mr. BOLTEN. I always look forward to an opportunity to engage with Chairman Stevens.

Senator BOND. Director Bolten is a good friend. You ought to see how we treat our enemies.

Senator Kohl.

MANUFACTURING EXTENSION PARTNERSHIP (MEP)

Senator KOHL. Thank you, Mr. Chairman. Mr. Bolten, over the past several years, the administration has attempted to slash funding for the Manufacturing Extension Partnership program, which is a program that helps small and mid-sized American manufacturers to modernize in order to compete in the global marketplace. MEP has a proven track record I think that you are aware of. They have consistently demonstrated their ability to create jobs and improve profits of these companies. I have visited many of them around my own State, but there are indications that are very clear that they replicate this kind of success all over the country. I do not understand why that program, which has been so successful, is really a program that, for the most part, the administration has indicated they want to terminate.

The funding for the program has been just at over \$100 million over the last several years. It is also funded at the State and local

levels. It is also paid for, in small part, by those companies that use it. So it is a good program and it is not a really expensive Federal program, but it does have good dividend returns.

Maybe you could make a comment on it. We are still trying, as you know, in this budget this year to restore the funding. It was cut down to something like \$39 million or \$38 million, which spread across 50 States really is not sufficient. We want to get that restored to where it was, \$112 million. Can we hope that you will support this effort, which is relatively modest, but I think it is significant in terms of protecting manufacturing jobs in this country and growing that part of our economy?

Mr. BOLTEN. Senator, the MEP program is one that I have had a number of very strong anecdotal reports about, about success stories there. In many respects, it is the kind of program in an unconstrained budget environment you might like to continue. But the program was originally intended, as it was originally set up, ultimately to be self-sustaining through fees paid by those that take advantage of its services. The administration would still like to move it to that basis.

It was funded this past year, I believe, at just over \$100 million. The year before that, the Congress funded at about \$40 million, which is the request that the administration is making this year. We are not proposing total termination this year. We have proposed a substantially reduced funding level in part because of the many strains that you have seen exhibited even here at just this one hearing, the many strains in the budget, where we need to set priorities and allocate our Federal dollars, our taxpayer dollars, where we think they can make the most good and where they are the most needed.

The MEP program has good anecdotes, produces some good results, but I think it is also a program that can meet the needs of its constituency hopefully ultimately on a self-sustaining basis, which is why we have proposed that for this year, it be cut back to the level that it was funded at year-before-last.

Senator KOHL. Well, ultimately it is a judgment and you all submit a budget that represents your best judgments, and I do respect that. As you know, you can be right and you can be wrong. I have given a lot of attention to the program, and I am utterly convinced as a businessman that it really returns dividends for the money that is spent, and that the money that we are spending at the Federal level is relatively modest. To signal that the government is going to get out of that business and either it will be self-sustaining or funded at the State and local level or it will go out, which is what that judgment means, I do not think is the correct decision to be making. I wish I could convince you that the program really deserves to be supported at its modest levels and not jettisoned. I will just continue to work on that and I hope that we can have some success.

The anecdotal evidence that you point to is really more than anecdotal. There is solid evidence that the program is effective and works. Solid evidence. It is not just anecdotal. So in that light and considering the fact that we are working so hard to maintain our job base in that part of our economy, I guess I do not fully understand why you all decide that you want to basically get to a termi-

nation of Federal support for that program, except that you are saying—and I have heard this from others who have preceded you in defending your decision—that is just our decision. You say we have heard evidence that it works. We have heard evidence that it is a good program. Nevertheless, we want to get to the point where we defund it. And it is the manufacturing sector. I do not quite understand.

Mr. BOLTEN. Well, Senator, it is really a question of priorities, that we believe that this program can be self-sustaining, that it does get resources from States and localities, that our Federal dollars are better spent on other priorities.

One of the priorities of this administration is, indeed, to make sure that our manufacturing sector, especially those involved in exports, remains strong. Secretary Gutierrez I know is devoting a lot of time and energy to that, and he has a new Assistant Secretary who focuses on those issues.

One of the important initiatives that we are undertaking right now at OMB is we have taken in a review of regulations that are regarded by the manufacturing community as impeding their competitiveness, especially internationally, and we are reviewing those for ways in which we can, without undermining other health and safety objectives and environmental objectives, free up our manufacturing community to be more effective and competitive. We hope to get your support in that undertaking as well.

Senator KOHL. I thank you, and Mr. Chairman, I thank you.

PART PROGRAM

Senator BOND. Thank you very much, Senator Kohl.

Mr. Bolten, I commend you for your emphasis on the PART program. I think it is very important that you determine what programs are effective. I note that the National Science Foundation, which I said earlier is extremely important in our ability to lead the world in science and technology, has the future of the U.S. job market and economy in its responsibility. We are seeing India, China, and Japan quickly outpacing the United States with developing scientists and engineers and the skills that go along with them. And the Program Assessment Rating Tool, the PART, has found NSF to have one of the strongest report cards. Parenthetically I would note that OMB has one of the weakest report cards.

Could you explain to me why you have chosen, when you are supposedly establishing priorities, not to put any priority on this institution which holds the future growth and development of our country in its grasp?

Mr. BOLTEN. Mr. Chairman, let me begin by associating myself with the remarks that you made in your opening statement about the importance of the physical sciences to our economy, to the future competitiveness of our economy. What we did in this budget was we did increase NSF funding by 2.4 percent overall.

Senator BOND. Whoopee.

Mr. BOLTEN. I note, Mr. Chairman, that you said whoopee to that.

Senator BOND. We will strike that from the record.

Mr. BOLTEN. I would like to request that it remain in the record, because in the current budget context, whoopee for 2.4 percent is

actually appropriate. We are in a budget context where we are cutting the non-security elements by a real 1 percent, a nominal 1 percent, a real cut larger than that, when you factor in inflation. So when we are growing an agency by a substantial part of the budget by 2.4 percent, I think in this context that is an expression of support.

In an unconstrained budgetary environment, would we like to see more money going into those programs that PART so well as NSF does? I personally would. I appreciate your comments about the PART system and how we are trying to use it to inform budgetary decisions so that we focus our dollars on programs that are working. NSF appears to be working. And I would like to see us in a situation where we are able to give them the resources they need going forward.

FEDERAL IT PROGRAM

Senator BOND. I am from the Show Me State, Mr. Director, and I would like to see that in the budget recommendations and not just in our discussions.

I mentioned the Federal IT programs. I am sorry we are missing the OMB hearing in the Committee on Government Reform on the House side on whether OMB is properly managing the \$65 billion in IT spending. The committee says OMB did not develop a single aggregate list identifying projects and the weakness. OMB has not developed a structured, consistent process for deciding how to follow up on corrective actions that it has asked agencies to take. And the GAO is going to be giving a report.

Can you give us a brief idea of what you expect to do in this IT area? It is a significant challenge. What do you intend to do on it?

Mr. BOLTEN. Thank you, Mr. Chairman. I have not had a chance to review, I think it is, a GAO report that is being discussed over on the House side. I will review it and we will take its recommendations seriously and factor them into our process going forward.

I will say that this administration has put a great deal of focus on the management of IT, which is a huge part of our budget, as you mentioned in your remarks, and one that has been seriously challenged for many years. It is not a problem that can be fixed overnight.

But the President felt that it was an important enough part of good management of the government that he made it one of the five areas that we rate in our President's Management Agenda. We use those scorecards now, the ones that you referenced in your previous question. We use those scorecards to keep track of how agencies are doing and we try very hard to instill in the agencies both an appreciation of the importance of good management of IT, which to most managers seems like a very technical thing that somebody else ought to take care of, No. 1, and No. 2, that they need to do that with a focus on results so that we do not have fiascoes like we have had at several agencies.

Senator BOND. We will look forward to working with you on that.

I was going to ask you a question on highway funding. I think \$284 billion is not adequate for our highway needs, but I can assure you that we are looking forward to giving you a highway bill

that does not increase the deficit but maybe does a little better job in meeting our basic infrastructure needs.

I would ask my last question. We are drastically cutting many programs that are important to the quality of life of Americans to our economic future on the discretionary side. We are seeing mandatory spending going up \$107 billion in 2006. I would ask you the rhetorical question, are you going to do something about limiting the explosive costs of mandatory spending, and when can we see some real results?

Mr. BOLTEN. Absolutely, Mr. Chairman, and the mandatory problem is one that dwarfs the challenges we face in our discretionary budget. It has three major components in entitlement spending: Social Security, Medicare, and Medicaid. On the last, the President has put forward proposals included in his budget and now, I know, being debated in the context of the budget resolution, to begin to get control of some of the explosive cost growth in the Medicaid program. We have put forward, I think, some very responsible proposals that just begin to ensure that we are spending our dollars there responsibly. There has been a great outcry about the supposed cuts the administration has proposed in Medicaid. What is actually going on is that instead of the current trajectory on auto pilot of Medicaid spending increasing out over the next 10 years at 7.4 percent growth, the administration is proposing that that growth be reduced to 7.2 percent. Obviously, there is a lot more that needs to be done.

Medicare, which is the biggest part of the problem, is an issue with a wide variety of elements that contribute to the problem. The biggest one is overall health care costs. I know the time is expired, so I will not go into any detail on initiatives to control health care costs. But that is crucial. At some point I believe we will also need to take another look at the Medicare system, which you have just legislated on, to ensure that we are getting the taxpayers value.

The third element is Social Security. The President, as you know, has an initiative—

Senator BOND. I know the President has made a recommendation. I look forward to supporting plans there, and I hope you will do something. When we thought we were getting a \$400 billion Medicare increase, that was wrong by almost double. That is really disappointing.

That is my final question. I will turn to Senator Murray for such questions as she may wish to ask.

Senator MURRAY. I have a couple other areas, Mr. Chairman, so I appreciate that. One of them is regarding air passengers.

In the Homeland Security budget, the administration proposed to increase the security fee paid by passengers by 120 percent next year from \$2.50 to \$5.50 per segment. As you probably are well aware, the airlines are complaining bitterly, and I think correctly, that this is a \$1.5 billion tax increase which further undermines their ability to recover economically.

In Secretary Mineta's formal testimony before us, he justified a half billion dollar cut in airport investments by arguing that several airports are not yet charging the full allowable passenger facility charge that they are allowed under law. Secretary Mineta's testimony implied that the proper way to invest in airports is through

another \$350 million in fees instead of from appropriations from the Airport and Airway Trust Fund.

So in addition to all these other problems, as you well know, the price of oil between \$50 and \$60 a barrel is not helping either.

I am curious whether the administration has any sympathy for the airlines, first of all, and the challenges that they are facing with this, and really why, if you understood that you were giving us a double whammy with two proposals, one to increase the airport facility fees by \$350 million and also requiring \$1.5 billion in higher fees at the same time.

Mr. BOLTEN. Senator, we recognize that the airline industry is challenged, as is the rail industry, as are our highways, as are virtually all modes of transportation especially by high oil prices. But we also know that we have a responsibility to be prudent with the taxpayers' dollar.

Now, the increase in the fees that you referenced, I think it is, from about \$3 per segment up to about \$5 a segment is what we are talking about, an authorized increase in the fee that goes on an airline ticket. What we are trying to do is bring us closer to making it possible for those fees to fully fund the cost of the airport screening that has now been implemented since 9/11.

The Federal Government has to pay those costs, or the taxpayer has to pay those costs. The question is who is going to bear it. We have two choices. We can try to impose that cost on those who are using the airline services or we can impose them on the general taxpayer. I believe that given that choice, the former answer is almost always the right answer, that you want those who are taking advantage of a service to bear the cost.

Senator MURRAY. Well, it is except if you will recall, when the airlines went down after September 11, the economic impact was devastating. We certainly felt it in my end of the world. So I think we have to be very careful what kind of economic impact we put on the airlines.

Mr. BOLTEN. That is understood.

Senator MURRAY. I wanted to bring up another topic with you that I am deeply concerned about. I have served on this Appropriations Committee for 13 years, and throughout that time I have had the pleasure of working on a bipartisan basis with several different chairmen, including Senator Shelby and Senator Bond. I believe that despite my policy differences with the administration, I have always been very careful to leave my door open to any member of the administration to talk about policies of importance to my State or to the country. I have worked closely with the Bush administration on trade and commerce issues and port security, and those are all important to me.

I say that because I have been really disappointed to learn over the past few weeks that the Executive Office of the President has been promoting a funding proposal that they want included in the pending supplemental that is before us right now. But as far as I can tell, this proposal has only been floated to majority members of the subcommittee and the majority staff. I wanted to ask you if you believe that the Executive Office of the President has the responsibility to come to Congress and justify its budget like every other agency in the Government.

Mr. BOLTEN. I believe we do, yes.

EXOP/OFFICE OF POLICY DEVELOPMENT

Senator MURRAY. Well, I do too and I believe that partisan differences should never enter into the considerations of this subcommittee when it comes to the financial needs of the Executive Office.

So I want to know if you can tell me why the administration is floating a proposal to eliminate the Office of Policy Development in the White House and merge it with the larger White House salaries and expenses account, and really more importantly, why has this proposal not been formally transmitted as a budget amendment through OMB.

Mr. BOLTEN. Senator, I cannot tell you why it has exactly been approached this way. I know we would be happy to engage with you on the proposal, and I am happy to discuss it with you. Probably this hearing is not—

Senator MURRAY. Can you just tell us why none of the minority staff on the Appropriations Committee has been talked to about this?

Mr. BOLTEN. I do not know who has been contacted and who has not been contacted.

Senator MURRAY. I can tell you that none of them have. We just know about it.

Mr. BOLTEN. Well, as I say, we would be happy to engage with you on the issue. It is something with which I have a little bit of familiarity and I know it would be an important and very useful piece of flexibility for the management of the White House in a situation where in the last 2005 budget the Office of Policy Development was drastically cut. I think that to enable the chief of staff in the White House to properly manage the White House resources—I think what they are suggesting is simply an ability to merge some of the accounts to make it easier to deal with that kind of situation.

Senator MURRAY. I think you may remember that during the Transportation/Treasury conference last year we adopted reprogramming guidelines for the Executive Office of the President which were most generous and most flexible. It is just disconcerting that this proposal is being floated on a plain white piece of paper to Republican members only. I just would suggest to you that you work with all of us on this committee and we would appreciate that consideration.

Mr. BOLTEN. We would be happy to engage with you, Senator, and I will make sure that does happen.

Senator MURRAY. I know my time is up and I know the chairman is ready to go.

BONNEVILLE POWER ADMINISTRATION (BPA)

I would just say I do have a question on Bonneville Power Administration. I think it is a topic you and I have gone through a number of times. We are very concerned about the President's proposals for power marketing administrations to go to market-based rates. Congress has spoken on that. I think you know that that is not going to fly on this end of the road.

But the other one is the proposal in the budget that would limit BPA's use of third party financing. I am not sure if you are closely familiar with it, but it is by accounting financing arrangements against BPA's borrowing authority limits. I wanted to ask you if you think BPA's investments and using third party financing are liabilities of the U.S. Treasury or they are liabilities of the Northwest ratepayers.

Mr. BOLTEN. Senator, if I may, I would like to respond on this issue in general to you for the record, with the chairman's permission.

[The information follows:]

BONNEVILLE POWER ADMINISTRATION (BPA)

BPA currently pays its obligations using power revenues from its ratepayers. Therefore, its liabilities accrue immediately to its ratepayers. Given that BPA is a wholly-Federal entity within the Department of Energy, the administration is committed to ensuring that BPA has the resources necessary to honor its liabilities.

The legislation the administration transmitted on June 1, 2005 to count BPA and TVA debt-like transactions against their debt caps is intended to accurately reflect these agencies' liabilities for the benefit of their ratepayers and other stakeholders, including taxpayers. Third party financing in which the non-Federal partner bears substantial risk would not be counted toward their debt caps, and this is the kind of partnering the administration has urged these agencies to explore. In addition, the Budget proposes to increase BPA's debt cap by \$200 million, which exceeds the amount of third-party financing BPA informed us it would like to pursue over the next 5 years, so our proposal should not have any programmatic effect on BPA's operations.

ADDITIONAL COMMITTEE QUESTIONS

Senator BOND. Okay. I really appreciate that because it has extreme consequences, and we have entered into a number of agreements believing that it is Northwest ratepayers, and if there is a difference of opinion, we need to know that.

Senator MURRAY. Thank you, Mr. Chairman. I appreciate it.

Senator BOND. Thank you very much, Senator Murray.

[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 PATTY MURRAY

IMPACT OF HUD'S UNALLOCATED RESCISSION OF \$2.5 BILLION

Question. Mr. Bolten, last week, our subcommittee held a hearing with HUD Secretary Alphonso Jackson. Your administration has singled out the Department of Housing and Urban Development for the largest cuts of any major Federal agency. I find this to be particularly tragic given the agency's mission to house the poor and seek to redevelop the Nation's most troubled communities.

Your budget for HUD seeks authority to rescind \$2.5 billion in unobligated balances from any program within HUD. In response to my questions, Secretary Jackson could not commit to me that this rescission would not come at the expense of existing levels of funding to house the poor. He could not even guarantee that this funding cut would not come at the expense of programs serving the homeless. It was clear that this proposal to impose a \$2.5 billion rescission against the agency was not something that was concocted at HUD.

Mr. Bolten, since this proposal appears to have been developed and supported at your agency, can you guarantee me that if we adopt your proposal to rescind \$2.5 billion from any program at HUD, that these funds will not work a hardship on any of the low-income communities that are served by HUD? Can you provide me with a guarantee that this rescission will not end up coming at the expense of programs serving the disabled, or the homeless, or people living with HIV/AIDS?

Secretary Jackson told us that he would be trying to develop a list as to where this \$2.5 billion would come from over the course of the next several weeks. Can

you guarantee us that we are going to get this list prior to the time that this subcommittee marks up?

Answer. While the estimate of excess funds available for rescission may change, there is every reason to believe, based on past experience that a large recovery will occur. Each year, since 1998, large amounts have been available for rescission from the Section 8 account—an average of \$2 billion in rescissions per year. These funds proposed for rescission in the fiscal year 2006 budget represent recoveries of amounts in the Section 8 programs or other HUD programs previously appropriated and obligated that are in excess of current needs.

The President's 2006 Budget does allow the Department to look to other sources of funds within the Department should there be insufficient funds within this account. However, this would not affect new funds in any program account. The funds proposed for rescission will not be needed to meet current obligations.

In 2003, for example, Congress enacted a rescission of \$1.6 billion which was satisfied with \$1.174 billion in unobligated balances in the Section 8 account and \$426 million in unobligated balances from other accounts including the Flexible Subsidy account (\$306 million) and small amounts from seven other accounts, with no programmatic effects.

As is the case each year, HUD may have a general idea ahead of time, but will not determine which funds from which accounts will be used to satisfy the rescission until June or July of 2006. While the estimate of excess funds available for rescission may change, based on past experience sufficient funds will be available within the Section 8 programs.

PART—PROGRAM ASSESSMENT RATING TOOL

Question. Mr. Bolten, I understand that your Program Assessment Rating Tool—or “PART” is the administration's tool to rate the effectiveness of Federal programs and help inform your budget decisions. As I review the President's Budget, it appears that several programs are slated for funding cuts despite receiving a positive PART rating. For example, the airport grant program and the Fair Housing Assistance Program are rated “moderately effective”, yet their budgets are cut. The Education Department's college prep program—“GEAR-UP”—is rated as “adequate.” Yet your budget is proposing that all funding for that program be eliminated.

It appears that, for all the effort and expense that the agencies and OMB are going through to execute the PART process, it is not informing your budget decisions. Why not?

Why would an agency have an incentive to improve a program and achieve a better PART score if OMB is just going to turn around and cut or eliminate the program anyway?

Answer. As the administration prepared its list of proposed major reforms and budget savings, we were guided by three major criteria:

- Does the program meet the Nation's priorities? The budget increases funding to strengthen our Armed Forces, improve our homeland defenses, promote economic opportunity, and foster compassion.
- Does the program meet the President's principles for appropriate use of taxpayer resources? If an appropriate Federal role could not be identified in a program's mission, the budget generally proposes to reduce or eliminate its funding.
- Does the program produce the intended results? The Bush Administration is measuring the effectiveness of the government's programs—and the results are helping us make budgeting decisions.

Just as a low PART rating does not automatically result in a funding decrease, a high PART rating does not automatically result in a funding increase. A PART assessment is an important factor, but not the only factor, in funding decisions. For example, while the GEAR UP program was rated “adequate,” it is among a number of narrow-purpose programs proposed for consolidation into the High School Intervention program. Activities supported by the GEAR UP program would be allowable under the new program if they can lead to improved student achievement.

The administration wants all Federal programs to work better. Because agencies are committed to improving their programs, they have defined specific steps that address PART findings for all programs, even highly rated ones or those proposed for termination.

NEW PRIVACY AND CIVIL LIBERTIES OVERSIGHT BOARD

Question. As the Nation goes to new and greater lengths to fight terrorism, there is a simultaneous and growing concern over the protection of the civil liberties of our citizens. The Intelligence Bill that the President signed into law in December

sought to address this issue by creating a Board that would be responsible for ensuring that privacy and civil liberty concerns are appropriately considered in all Executive Branch policies and practices across the entire Federal Government. My subcommittee colleague, Senator Durbin, was instrumental in authorizing the provision in law that requires the establishment of the new Privacy and Civil Liberties Oversight Board. That Board is to be composed of five members and staff to support it. Yet, the Executive Office of the President is only requesting \$750,000 to support two FTEs for the new Board.

How effective can this Board be with only two FTEs?

How did you decide, with a Federal workforce of 4.1 million military and civilian Federal employees, that the protection of civil liberties only requires two employees?

What are your long-term staffing plans for the Board?

The legislation that created this Board is the same legislation that created the National Director of Intelligence, and his nomination is currently pending in the Senate. Where are the nominees for this Board? When should we expect to see nominations submitted to the Senate?

Answer. The President is committed to protecting the legal rights of all Americans, including freedoms, civil liberties, and information privacy guaranteed by Federal law, in the effective performance of national security and homeland security functions. In his Executive Order of August 27, 2004, the President created a Presidential board of senior agency officials to advance this commitment and to advise him on new and ongoing efforts to safeguard these legal rights. The Privacy and Civil Liberties Board subsequently established by the Intelligence Reform and Terrorism Prevention Act of 2004 (Act) will build on this important effort.

The administration's proposal for funding the Privacy and Civil Liberties Board established by the Act envisions a Board whose members carry out their functions for the government on a part-time basis, with a full-time Executive Director. In addition, the Act authorizes the use of agency detailees on a non-reimbursable basis. A Board composed of part-time members was envisioned by the Act—which authorized the Chair of the Board to serve on either a full-or part-time basis, but specified that remaining Board members would serve part-time. Thus, with part-time members, the equivalent number of FTEs for the board is two.

This arrangement will help ensure that the Board is staffed with people with the right type of expertise because it permits members to be appointed who will not have to leave their jobs in order to carry out this important function. In addition, if the administration draws on the staff of various agencies, the Board's activities would be augmented without adding to the cost of its function, promoting efficiencies within a tight budget climate. Agency staff would carry out the day-to-day activities and research for the Board, while leaving the results of that research, and advising and counseling on development and implementation of policy, to Board members.

Finally, the funding level in the administration's proposal is very similar to that provided historically for the President's Foreign Intelligence Advisory Board, which operates with a modest budget and whose members serve without compensation.

The administration believes that this arrangement will be most beneficial to the Federal Government—drawing on the right type of expertise, and promoting efficient use of existing government resources. Once the Board is up and running, its progress and performance will be examined to determine whether this model continues to be appropriate.

On June 10, 2005, the President announced his intent to nominate Carol E. Dinkins to be the Chairman of the Board, and Alan Charles Raul to be the Vice Chairman. Additionally, the President appointed Lanny J. Davis, Theodore B. Olson and Francis X. Taylor as members of the Board.

A RECORD NUMBER OF FEES?

Question. Your budget this year includes a very large number of new user fees. It can be argued that, with the exception of National Defense, there are designated "users" for just about every government service. For example, the government could require that the cost of wheat subsidies only be paid by people that buy bread and cereal. The government could require that only small businesses pay the costs of the Small Business Administration.

How does this administration decide which services should be paid for through general revenues versus user fees? Does the administration concede that there is any limit to the number of new user fees you should propose?

Many have criticized the administration's user fee proposals as just more taxes.

Would you agree that there should be some relationship between the fees that are charged and actual cost of providing the government service?

I am concerned about one area new user fees; namely, the fees you want to impose on small wineries in Washington State. In one small agency alone in this bill—the Alcohol, Tobacco Tax and Trade Bureau—five new or increased fees are being proposed equaling 31 percent of the TTB fiscal year 2006 budget request. I am told that there is no relationship between the actual services the wineries receive from TTB and the fees you now want to impose.

How did you decide that an industry that already pays nearly \$550 million in Federal excise taxes needs to pay new fees?

Why is there no correlation between the fees you want to propose and the services these wineries receive?

Answer. In general, the administration uses Circular A–25 on User Charges, to develop its user fee proposals. Circular A–25 provides as a general policy that user charges should be designed to recover the full cost of Federal activities that provide special benefits beyond those received by the general public. Under current law, the Federal Government already recovers the full cost for the activities of agencies such as the Federal Energy Regulatory Commission, the Securities Exchange Commission, and the Patent and Trademark Office.

In the case of the Alcohol and Tobacco Tax and Trade Bureau (TTB), the proposed user fees reflect the agency's best current estimates of the charges necessary to transfer full costs to the direct beneficiaries of the agency's services and to limit use of those services when not required. The services provided by TTB ultimately protect the public against misleading labels, adulterated alcohol, protect against dishonest persons entering the alcohol business, and promote fair competition among industry members. TTB's regulatory efforts provide value to the industry and the industry should pay for the benefits it receives from these efforts.

For small wineries, at least four of the following five user fees would apply depending on the activity:

- New Permit Applications*.—\$500 minimum fee. Applies to all wineries, as well as other businesses. TTB must review and investigate the qualifications of the applicant, including the applicant's criminal background and whether he or she is likely to operate in conformity with Federal law.
- Certificates of Label Approval / Certificates of Exemption*.—\$100 minimum fee for paper filing, \$50 minimum fee for electronic filing. Applies to all alcohol beverage products. A key feature of the user fee proposal is to encourage businesses to file their applications electronically.
- Formula Review with No Laboratory Analysis*.—\$200 minimum fee. Wineries must submit formulas only if product evaluation is required by regulation (e.g., for flavored wine). Formula review is necessary to ensure the proper labeling classification of products.
- Formula Review with Laboratory Analysis*.—\$600 minimum fee. If a winery wants a label approved without the sulfite declaration, a lab analysis and report is required, which would be covered by the proposed user fee. However, the lab analysis need not be conducted by the TTB lab.
- American Viticultural Area Petitions*.—\$3,000 minimum fee. This fee applies only on petitions that wineries choose to submit for recognition of new viticultural areas, and covers the cost of reviewing the petition and submitting it for formal rulemaking.

COMPETITIVE SOURCING—DISABLED AND HEALTH CARE

Question. In 2001, President Bush announced his New Freedom Initiative, which involves “tearing down the remaining barriers to equality” that face Americans with disabilities. At the time, he noted that the unemployment rate for Americans with disabilities is about 70 percent. The President says he cares about the disabled, but the disabled can lose their Federal jobs if those jobs are subjected to competitive sourcing.

In February of this year, OMB reportedly prepared draft guidance for the 2005 competitive sourcing inventories. This draft guidance was never released. It advised agencies that, as part of the competitive sourcing process, they could “set aside FTEs for the employment of physically- and/or mentally-challenged individuals.”

Why wasn't this memo finalized and sent out to all Federal agencies? Is it possible that certain disabled individuals have already lost their Federal job as a result of OMB's failure to disseminate this guidance?

The administration has stated numerous times that they are concerned about the number of Americans that are without health insurance. Yet, your competitive sourcing rules penalize Federal employees that want to compete to keep their jobs because they have a responsible employer that provides health insurance. The cost

of their Federal health insurance often works to their disadvantage when they compete against private vendors that do not offer it.

Is this policy consistent with the administration's stated concern for the uninsured? Why aren't you requiring all contractors to provide insurance commensurate with the Federal benefits? Why aren't you at least requiring all contractors to provide some minimal level of health insurance?

Currently, the DOD Appropriations Bill requires you to ignore the added costs of Federal health insurance when conducting a competition between private vendors and Federal employees that are trying to keep their jobs at DOD.

Do you believe it makes sense to have this policy only for competitions within the Defense Department but not the other Federal agencies? Why?

Answer. On May 23, 2005, OMB issued government-wide guidance to help agencies prepare their inventories of commercial inventories (see OMB Memorandum M-05-12, available on www.omb.gov). The guidance includes an example of the rationale an agency could use to justify exempting positions held by individuals with disabilities from competition. The example explains that an agency may set aside positions for the larger governmental purpose of providing gainful employment for those individuals who, as a result of their disability, have limited employment options in the private sector. The guidance, which addresses a wide range of issues to improve the accuracy and overall quality of inventories, was subject to a lengthy agency review and comment process. The sample rationale described in the final guidance reflects a best practice that is already being used by agencies to exempt individuals with disabilities from competition—i.e., the guidance neither creates a new requirement nor allows for an exclusion that had formerly been prohibited.

We do not believe that Federal employees are disadvantaged in public-private competitions. Just as we would not penalize a private entity specifically if they offered better health benefits to their employees than the Federal entity, neither do we penalize Federal agencies that offer health benefits that a private competitor does not offer. In fact, Federal employees are generally given a 10 percent price advantage over their private sector counterparts. For work to be converted from public to private sector performance, a contractor must propose to perform at a cost which is at least 10 percent lower than that proposed by the in-house offeror. Federal employees have performed well in public-private competitions. They have been selected as the best value provider to perform work representing approximately 90 percent of the positions competed in fiscal years 2003 and 2004 and, thanks to competition, they have developed more efficient and cost-effective methods to serve our taxpayers.

The administration believes that Section 8014 of the fiscal year 2005 Defense Appropriations Act unnecessarily subjects private sector bidders to intrusive data requirements concerning the provision of health benefits to their employees. While well intentioned, this provision ultimately undermines the efficiencies in private health plans and provides another disincentive for the private sector to participate in DOD's competitions. Further, by discouraging private sector interest in competitive sourcing, this provision places at risk significant savings—estimated to be \$6 billion from fiscal year 2001 to 2006—generated by the Competitive Sourcing initiative of the President's Management Agenda. Small business participation in competitions will be severely undermined since this provision makes it particularly burdensome to assemble competitive offers.

COMPETITIVE SOURCING

Question. Director Bolten, in your answers to post-confirmation hearing questions, you told the Congress, "If confirmed, I will ask the Administrator for Federal Procurement to recommend ways to improve opportunities for federal employees to compete for new work and for work currently performed by contractors." Please provide the committee with a list of those recommendations and please identify specific instances in specific agencies in which Federal employees have been allowed to compete for new work and contractor work.

Please provide a list of specific instances in which OMB has given credit to agencies towards the achievement of the goals included in their "competitive sourcing" plans for using alternatives to public-private competition for the generation of efficiencies in the delivery of services.

The Administrator of the Office of Federal Procurement Policy, in his responses to pre-confirmation hearing questions last year, said that he, "would encourage in-house service providers to develop most efficient organizations as a matter of routine, including for streamlined competitions." Why has OMB strenuously opposed any legislation that would ensure that in-house service providers are always allowed to develop most efficient organizations as part of any public-private competitions?

Further, the Administrator of the Office of Federal Procurement Policy, in his responses to pre-confirmation hearing questions said that he, "would not object to removing the five-year recompetition provision from the Circular and relying on agencies to determine appropriate performance periods based on the nature and risk associated with the services to be provided." Has this change been made? If not, why?

According to a May 30, 2003, posting on GovExec.com, "In a late April interview with Government Executive, Angela Styles, the director of the Office of Federal Procurement Policy, said curbing direct conversions was part of OMB's effort to prove that competitive sourcing is about competition, and not shifting contracts to private firms. 'People have criticized us for this being an outsourcing initiative and I've been trying to tell them that it's really not, that what we want is competition and the best value for the taxpayer at the lowest cost. I think this adds a little more meat to what we're saying,' Styles said. On Wednesday, an OMB official said the idea of banning direct conversions was 'presented to OMB by federal employee organizations and their members, and we listened to them. Direct conversions for under 10 [full-time equivalent] employees are now a thing of the past. We believe that fiscal responsibility demands that decisions be made by facts, and the new streamlined approach requires knowledge of the costs and agency accountability.'" However, the Administrator of the Office of Federal Procurement Policy, in an article posted on GovExec.com on January 14, 2005, said he was considering allowing agencies to shift work to contractors without competition, a practice known as direct conversion. Please indicate why OMB's thinking may have changed, providing any relevant research, and provide an update as to OMB's intentions with regard to its support for reviving the practice of direct conversion.

Answer. The OFPP Administrator has reviewed the A-76 Circular's provisions for Federal employee performance of new work and contracted work and concluded that these provisions are fair and reasonable. The circular permits agencies to consider in-sourcing or performing new work by demonstrating through competition that this action will achieve the best value for the taxpayer.

Agencies that have developed highly efficient internal operations and have the capacity to handle common support functions for multiple agencies will soon have the opportunity to compete for this work from other agencies, beginning with financial management and human resources, as part of OMB's efforts to reduce duplication in lines of business through cost-effective migration and consolidation. If a private sector source wins a competition, the government providers will have another opportunity to compete when the work comes up for recompetition.

Regarding alternatives for public-private competition, agencies are always encouraged to find efficiencies and better ways to perform their mission. However, credit in the competitive sourcing scorecard is directly tied to those management efforts involving the use of competition since the initiative focuses on how well agencies use competition as a management tool to reduce costs, increase efficiencies, and eliminate waste.

OMB recognizes that public-private competition is just one of a number of management tools, and not all commercial activities are suitable for competition (e.g., perhaps because there is no private sector interest in the work or the activity is core to the mission and potential conversions to the private sector would subject the mission to undue risk). OFPP will continue to work with agencies' Competitive Sourcing Officials (CSOs) on guidance to determine how agencies might develop "high performing organizations" where competition isn't appropriate.

OMB has opposed calling for the development of most efficient organizations (MEOs) because they have typically has been coupled with objectionable provisions, such as requirements that agencies choose the cheapest provider rather than the one that offers the best value to the taxpayer. In addition, statutory language is unnecessary because Circular A-76 already provides a strong foundation for the development of MEOs: the Circular requires MEOs for all standard competitions and encourages MEOs for all streamlined competitions. Fiscal year 2004 data from the agencies shows a trend towards greater use of standard competitions and streamlined competitions with MEOs.

With regard to the 5-year recompetition provision in Circular A-76, a change has been made. In April 2004, OMB issued a memorandum to advise agency heads that the 5-year performance limitation no longer applies. The memorandum vests agencies with the discretion to determine an appropriate performance period considering the nature and risk of the service.

Generally, we will expect agencies to continue using public-private competitions that take cost into careful consideration when deciding whether work should be converted from public to private sector performance. At the same time, there may be cases where direct conversions of small numbers of positions may make sense (e.g., clearly commercial, non-core work) where such conversions may help the agency ex-

peditiously redirect its workforce to mission critical activities that are not suitable for private sector performance.

SUBCOMMITTEE RECESS

Senator BOND. Thank you, Director Bolten. It has certainly been an interesting exercise. We appreciate your coming before us. We have many things that we look forward to working with you on.

This hearing is recessed.

[Whereupon, at 11:15 a.m., Thursday, April 21, the subcommittee was recessed, to reconvene subject to the call of the Chair.]