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(UNCLASSIFIED) -- MEMORANDUM FROM MITCH
DANIELS - AGENCY SUMMARY MATERIAL**

467508



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE VICE PRESIDENT HAS SEEN

THE DIRECTOR

January 27, 2001

MEMORANDUM

TO: THE BUDGET REVIEW BOARD

FROM: Mitch Daniels

SUBJECT: Agency Summary Material

Attached is a notebook containing OMB's recommended agency passback for the FY 2002 Budget. There is a summary table at the beginning of the document listing major agencies, showing the absolute change in budget authority from FY 2001 to FY 2002 and the percentage change. Each agency's presentation shows the recommended top line, and the President's initiatives along with OMB's suggestions about how to fund them. The underlying assumption is that programs not affected by an initiative or a proposed reduction would be held at the FY 2001 enacted level.

Please note: proposed reductions are my suggestions only and not Presidential policy. I recommend at this stage, we eliminate only items that may inadvertently controvert campaign pledges or policy, or that are seen as so inflammatory that they should not even be associated with OMB. The agencies will have a chance to review these proposals and to offer alternative approaches. The President will make final decisions.

Please review this material, flag items that concern you most, and return the books to me with your comments by Monday morning.

As we discussed with the materials distributed yesterday, these documents are **extremely sensitive**. Please do not copy or circulate them.

Corrected
Copy

MEMORANDUM TO PRESIDENT BUSH

January 26, 2001

FROM: LAWRENCE LINDSEY

RE: ACCELERATING THE TAX PLAN

CC: SECRETARY O'NEILL, SECRETARY EVANS, DIRECTOR DANIELS

A key budget decision involves the possibility of accelerating the phase in of your tax plan. There are three reasons you may want to consider such an implementation. All three points were made by Chairman Greenspan in his testimony on Thursday.

- The evidence that the economy is slowing rapidly continues to build. An immediate tax cut would provide extra stimulus to help continue the expansion.
- The projected surpluses are so large that by the second half of this decade the government will either have to acquire private assets or cut taxes.
- The Congress will continue to push for large spending increases absent any restraint.

Secretary O'Neill, Secretary Evans, Director Daniels, and I met to discuss various options for implementing your tax plan. Below we have presented several options for your consideration.

Option 1: Preserve the phase-in structure announced during the campaign

The first option is to maintain the same phase in scheduled proposed during the campaign. This would hold down the cost of the tax plan and allow the Congress to use the normal budget process. If the Senate operates within the budget process, it only needs 50 votes to pass tax legislation (with the Vice President casting the tie-breaking vote).

However, this option would provide no stimulus this year, and very little in 2002. Accordingly, it would be hard to argue that the tax plan would help the economy now.

Option 2: Immediate implementation of rate reductions

Option 2 would make the 10%, 25%, and 33% rates effective January 1 of this year. Withholding changes would be implemented as soon as possible. This action would provide about \$90 billion worth of stimulus this year, a bit less than 1 percent of GDP. If the Congress could pass it quickly, this option would be the most credible plan for staving off a recession. Even under this plan, the government would run substantial unified budget surpluses that would rapidly pay down the debt.

This option has two main drawbacks. First, it would require us to dip into the Social Security surplus for up to four years (see attached table). There is substantial risk that Republican and Democrat moderates would not support such a plan. Second, this option would increase the ten year cost of the tax plan by over \$200 billion. This too could alienate moderates on both sides of the aisle.

Option 2 could be modified to reduce the size of the non-Social Security deficits. For example, the marriage penalty, the estate tax, and the charitable deduction provisions could be delayed until 2006 (see Option 2B on attached table).

Option 3: Immediate implementation of two-thirds of the rate reductions

The third option would provide two-thirds of the economic stimulus as option two, but it would probably not require dipping into the Social Security surplus. This option is politically more attractive and more likely to gain support on the Hill. However, if the economy is going into recession, the best policy for Social Security is to focus on an economic recovery. This option would also increase the ten-year cost of the tax plan.

Additional Concern

The Republicans and Democrats in the Congress are pushing to lock-box the Medicare Part A surplus, which would set aside another \$437 billion of the surplus for debt reduction over ten years. *This would make it virtually impossible for you to accelerate your tax plan and would even force reductions in the plan on which you campaigned.*

TAX OPTIONS (in billions of dollars)												
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	'02-'11
Option 1: Campaign Tax Proposal												
Unified Surplus	262	237	250	265	265	289	322	352	389	443	501	3313
Non-Social Security surplus	105	65	56	54	29	37	52	65	86	120	158	722
Option 2: Immediate Implementation of Marginal Rate Cuts												
Additional Marginal Rate Cuts	-72	-73	-59	-41	-28	-7	0	0	0	0	0	-208
Additional Debt Service	-2	-6	-10	-13	-16	-18	---	---	---	---	---	-63
Total Option 1	-74	-79	-69	-54	-44	-25	0	0	0	0	0	-271
Remaining Unified Surplus	188	158	181	211	221	264	322	352	389	443	501	3042
Remaining Non-SS Surplus	31	-14	-13	0	-15	12	52	65	86	120	158	451
Option 2B: Immediate Implementation of Marginal Rate Cuts + Delayed Phase-in for Other Tax Relief												
Additional Marginal Rate Cuts	-72	-73	-59	-41	-28	-7	0	0	0	0	0	-208
Delay Other Tax Relief	0	1	14	19	32	0	0	0	0	0	0	66
Additional Debt Service	-2	-6	-10	-12	-13	-14	---	---	---	---	---	-55
Total Option 2	-74	-78	-55	-34	-9	-21	0	0	0	0	0	-196
Remaining Unified Surplus	188	159	195	231	256	268	322	352	389	443	501	3117
Remaining Non-SS Surplus	31	-13	1	20	20	16	52	65	86	120	158	526
Option 3: Immediate Implementation of Two Thirds the Marginal Rate Cuts												
Additional Marginal Rate Cuts	-48	-42	-27	-8	0	0	0	0	0	0	0	-78
Additional Debt Service	-2	-4	-7	-8	-9	-9	---	---	---	---	---	-36
Total Option 2	-50	-47	-34	-16	-9	-9	0	0	0	0	0	-114
Remaining Unified Surplus	212	190	216	249	256	280	322	352	389	443	501	3199
Remaining Non-SS Surplus	55	18	22	38	20	28	52	65	86	120	158	608

NOTE: These numbers are not final. The Office of Tax Analysis has not completed an official score of the tax plan, and the OMB has not finalized the budget. In addition, the budget numbers do not include an increase in defense spending.

Agency Summary Materials

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Sensitive

Summary Totals by Agency

(Budget authority unless otherwise noted, dollar amounts in millions)

	FY 1993 Enacted	FY 2000 Enacted	FY 2001 Enacted	FY 2002 Proposed	FY 2002 Proposed Difference From FY 2001 Enacted	
					Absolute	Percent
Agriculture.....	15,480	16,873	19,006	17,119	-1,887	-9.9%
Commerce.....	3,277	8,662	5,128	4,553	-575	-11.2%
Defense.....	262,600	287,700	296,100	310,500	14,400	4.9%
Education.....	23,851	29,332	39,936	42,401	2,465	6.2%
Energy.....	19,257	17,752	19,680	18,638	-1,042	-5.3%
Health and Human Services.....	29,299	44,407	52,801	55,037	2,236	4.2%
Housing and Urban Development.....	25,524	23,144	30,782	32,222	1,440	4.7%
Interior.....	7,020	8,450	10,205	9,322	-883	-8.7%
International Affairs.....	21,194	23,470	22,661	21,320	-1,341	-5.9%
Justice.....	9,884	18,768	20,364	19,456	-908	-4.5%
Labor.....	9,920	11,227	11,891	10,975	-916	-7.7%
Transportation (budgetary resources).....	37,959	49,015	56,792	57,941	1,149	2.0%
Treasury.....	10,129	12,524	14,042	13,983	-59	-0.4%
Veterans Affairs.....	16,885	20,850	22,391	21,746	-645	-2.9%
Corp. for National and Community Service.....	284	732	766	430	-336	-43.9%
Corps of Engineers.....	3,720	4,119	4,541	3,930	-611	-13.5%
Environmental Protection Agency..... (with CWSRF)	6,923	7,568	7,812	6,705	-1,107	-14.2%
Federal Communications Commission (revenue enhancements):						
Analog Spectrum Fee.....	---	---	---	200	200	N/A
Channel 60-69 Auction.....	---	---	---	-2,600	-2,600	N/A
Federal Emergency Management Agency.....	2,573	3,944	2,434	2,749	315	12.9%
General Services Administration.....	602	-30	471	452	-19	-4.0%
National Aeronautics and Space Administration.....	14,323	13,601	14,254	14,266	12	0.1%
National Science Foundation.....	2,750	3,897	4,416	4,448	32	0.7%
Federal Drug Control Funding (Total).....	12,036	18,101	18,345	18,679	334	1.8%
Office of Personnel Management.....	215	196	207	207	---	---
Regional Development Commissions:						
Appalachian Regional Commission.....	53	66	77	50	-27	-35.1%
Denali Commission.....	---	20	30	20	-10	-33.3%
Delta Regional Authority.....	---	---	20	20	---	---
Small Business Administration.....	898	891	899	684	-215	-23.9%
Smithsonian and Other Cultural Agencies.....	433	595	620	610	-10	-1.6%
Social Security Administration.....	4,823	6,691	7,216	7,624	408	5.7%
Judiciary.....	2,367	3,663	3,975	4,293	318	8.0%

SENSITIVE

DEPARTMENT OF AGRICULTURE (USDA)
(budget authority, in millions of dollars)

	<u>1993</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Difference</u> <u>2001 to 2002</u>	<u>% Change</u> <u>2001 to 2002</u>
Proposed Passback	15,480	16,873	19,006	17,119	-1,887	-9.9%

Initiatives

- Forest Service Land and Water Conservation Fund (LWCF). \$130 million, a reduction of \$20 million from the FY 2001 enacted level, is provided for Forest Service LWCF activities. This is the Clinton Administration's FY 2001 request level, and is part of an overall initiative to fully fund the LWCF at its \$900 million authorized level by FY 2004.

Proposed Reductions

- Eliminate unrequested funding (-\$231 million). Over \$200 million of this reduction is in FY 2001 congressional earmarks for over 400 agricultural research projects that largely serve local or industry-specific interests. Many of these are funded year after year.
- Eliminate one-time funding items (-\$1,334 million). These reductions are mostly in FY 2001 emergency appropriations to discretionary accounts, which were provided in response to natural disasters as part of emergency farm assistance (an additional \$3.5 billion in FY 2001 emergency farm assistance funds were appropriated to mandatory accounts and not extended in the OMB baseline). This figure also includes \$744 million in one-time firefighting funds appropriated to the Forest Service due to the unusually severe 2000 fire season; eliminating these funds would not compromise fire preparedness in FY 2002. Congress and interest groups are not likely to object to this cut, but there is a strong likelihood of another sizeable "emergency" farm assistance appropriation for the coming year.
- Propose fees for several marketing and regulatory programs (-\$30 million). Fees would be charged users for identifiable services, such as animal welfare inspections, updating and maintaining U.S. grain standards used by industry, and programs that protect the livestock industry from unfair business practices in meat and poultry marketing and distribution. Similar past proposals have been rejected by Congress.
- Streamline Forest Service operations (no savings in FY 2002). The Forest Service has over 35,000 employees (the largest single USDA component) and a vast field-office network. Administrative functions (such as procurement, personnel, and information management staff) would be centralized. USDA would also be directed to review and determine how to implement further field office efficiencies and attain optimal staff skill mix.
- Reduce and reorganize Forest Service Research (no savings in FY 2002). The Forest Service Research program (\$230 million appropriated for FY 2001) is often not responsive to the research needs of other Forest Service divisions, such as Wildland Fire Management,

and State and Private Forestry. This proposal would shift some research to Forest Service operating divisions, and eliminate lower-priority research.

- Reform USDA international food programs (-\$60 million). Title I of PL 480, which provides concessional loans to foreign countries to buy U.S. agricultural products, would be eliminated, with the highest priority needs to be met through other programs. Current creditworthy recipients would be shifted to USDA's "GSM" commercial export credit program, at a subsidy cost of about \$20 million in FY 2002. Food assistance for Title I's neediest recipients would be shifted to grants from USAID's PL 480 Title II (which authorizes food donations), at a cost of about \$40 million.
- Increase non-Federal match for invasive species eradication/compensation (-\$50 million). USDA is authorized to transfer funds from its mandatory Commodity Credit Corporation (CCC) in order to combat "emergency" outbreaks of invasive species, such as citrus canker and the Mediterranean Fruit Fly. These transfers are not limited by appropriations and, in recent years, have increased by a factor of six, to over \$200 million in FY 2001. This proposal would increase the share of eradication and compensation costs paid by partners such as States and industry. Several of USDA's recent requests have assumed a Federal share of 95 percent.
- Wildland Fire Management (-\$53 million). In addition to reducing one-time spending items associated with the fires of FY 2000 (discussed above), this proposal supports a policy of increased funding for Preparedness and Hazardous Fuels reductions, but eliminates certain low-priority projects.
- Reduce Funding for USDA Research (-\$45 million). Funding for USDA's in-house research program would be reduced by five percent with the expectation that the agriculture and food industries would be willing to cost share that amount of research, since the research directly benefits them.
- Eliminate Farm Loans for Larger Farms (-\$49 million). USDA makes low-interest loans to farmers for operating costs and land purchase. To reduce corporate welfare, this reduction would make farms with gross annual sales of over \$250,000 ineligible for such loans. In addition, it would increase loan guarantee origination fees, and introduce annual guarantee fees similar to those used by the Small Business Administration.
- Increase Cost-Sharing for USDA Conservation Activities (no savings in FY 2002). Freeze discretionary funding for the Natural Resources Conservation Service (NRCS) at FY 2001 levels. In addition, NRCS would implement 90-percent Federal/10-percent non-Federal cost-share requirements for all its discretionary programs that currently do not require non-Federal cost-sharing. These additional cost-share requirements would not apply in the case of limited-resource landowners or communities.
- Rural Business Service (-\$64 million). To reduce business welfare, USDA's Business & Industry (B&I) direct loans and the Round II Rural EZ/EC program would be zeroed out. The B&I direct loans have not proved to be an effective program, and have high subsidy costs due to their default rates. Eliminating the Rural EZ/EC program is consistent with the

Administration's proposal for Urban EZ/ECs. In addition, B&I guaranteed loans would have a loan level of \$500 million (\$1.1 billion below FY 2001), and include a new, annual fee, lowering the subsidy rate. Most other USDA business development grants and S&E would be at half their enacted levels.

Mandatory Changes (Legislation required)

- Eliminate USDA's Commodity Credit Corporation Export Subsidies (-\$637 million). To reduce corporate welfare, USDA's direct export subsidies, through the dormant Export Enhancement Program (EEP) and the Dairy Export Incentive Program (DEIP), would be eliminated, but the Department's GSM ag export financing program would continue at baseline levels, pending conclusion of OECD multilateral negotiations on trade subsidies. USDA's indirect ag export subsidies through market promotion programs (Market Assistance Program (MAP), the "Cooperator" program, and the Quality Samples Program (QSP)) would be also eliminated.
- Reduce USDA's Donations of Surplus Commodities (-\$620 million). USDA's Sec. 416(b) donations overseas of US surplus commodities, acquired through Commodity Credit Corporation (CCC) mandatory funding, would be restricted to only direct humanitarian feeding programs. The U.S. would also negotiate with the UN's World Food Program (WFP) to reduce WFP overhead charges, and bring them into conformity with CCC authorities. To implement this policy, the Administration would establish improved interagency process to determine USDA commodity availability, donation priorities, and program administration.
- Cut Expense Reimbursement to Crop Insurance Companies (-\$55 million). This proposal would reduce USDA reimbursement of private crop insurance companies' administrative expenses from 24.5 percent of gross premiums to 20 percent. Several crop insurance companies may exit the industry in response, and special consideration would have to be made to ensure adequate service to underserved areas.

Selected Increases

- USDA County Office Streamlining (+\$21 million net). This option would close redundant offices (approximately 500), centralize farm loan servicing (\$13 million cost in FY 2002), federalize county office employees (which USDA already funds), expedite completion of the Common Computing Environment (\$62 million cost in FY 2002), and create a Service Center Modernization management entity to assist in merging administrative operations (IT support and human resources). The last item requires legislation.
- Increase subsidy BA to support farm loans at the FY 2001 level (+\$69 million). The FY 2001 enacted loan BA was reduced by Congress due to information surfacing late in the process that a significant amount of prior-year emergency farm loan funding would carry into FY 2001. These loans are expected to be obligated in the current year, and the FY 2002 baseline BA is not sufficient to support a \$3-4 billion direct and guaranteed loan level as Congress has provided annually in recent years. Due to the perception that the farm economy has not yet pulled out of its recent economic slump, and the fact that these loans

would be targeted to lower-income, smaller family farms, there will likely be pressure to maintain recent program levels.

- Increase subsidy BA to support Rural Development loans at the FY 2001 level (+\$25 million). The FY 2002 subsidy rate for these loans is higher than FY 2001 due to changes in technical and economic assumptions. This additional BA would maintain the programs for rural water and wastewater, community facilities, and rural economic development at the FY 2001 level.

DEPARTMENT OF COMMERCE
(budget authority, in millions of dollars)

	<u>1993</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Difference</u> <u>2001 to 2002</u>	<u>% Change</u> <u>2001 to 2002</u>
Proposed Passback	3,277	8,662*	5,128	4,553	-575	-11%

*Peak year for decennial census spending.

Initiatives

- None

Proposed Reductions

- One-time and unrequested projects (-\$117 million). Funding will not be sought for various Congressional earmarks in the National Oceanic and Atmospheric Administration (NOAA) and other Commerce bureaus.
- Technology Opportunities Program (TOP) (-\$30 million). Reduce TOP to historical level of \$15 million; the program was tripled in 2001 to \$45 million. TOP provides grants to promote innovative applications of information technology for under-served areas (e.g., distance learning and tele-medicine). While TOP is intended to address the "digital divide," other programs in the FCC and Education Department provide far more funds.
- Emergency Loan Guarantee Programs (-\$125 million). In FY 2002 rescind 1999 budget authority supporting emergency steel (-\$10 million) and oil and gas (-\$115 million) loan guarantees. Rescission leaves adequate funds (\$130 million for steel and \$8 million for oil and gas) to complete the first round applications and to handle a second round of applications equal in magnitude to the first. Steel program was championed by Sen. Byrd; oil and gas program was championed by Sen. Domenici. The oil and gas program was created when oil and gas prices were far below current levels.
- Coastal Impact Assistance Fund (CIAF) (-\$150 million). Eliminate CIAF. CIAF is a new grant program, created in FY 2001 as an outgrowth of conservation spending legislation, that provides funds to the seven States with offshore oil and gas development (FL, AL, MS, LA, TX, CA, and AK). CIAF is twice as large as the Coastal Zone Management Act grants that benefit all coastal States. Eliminating CIAF, however, could reopen the debate about and pressure for increased conservation spending.
- Economic Development Administration (EDA) (-\$77 million). Reduce EDA grant funding to authorized level, \$335 million. EDA principally provides small grants to needy communities via a national network of offices. The program was increased by \$50 million in FY 2001.

- Advanced Technology Program (ATP) (-\$146 million). Terminate ATP. ATP provides grants to firms to develop innovative technologies. The program has grown significantly since 1990, when it was first funded. While well managed, the program is of questionable merit for two reasons: 1) after ten years, there are not many proved successes; and 2) it involves the Federal Government in selecting "winners and losers" among private firms.
- Fisheries Programs (-\$22 million). Reduce assistance to the fishery industry, in addition to reductions of \$41 million of funding included above in the reductions of one-time and unrequested projects. Of the \$22 million in reductions, \$12 million are from State and Industry Assistance and \$10 million are from aquaculture and other fishery industry research.

Mandatory Changes

- None

Selected Increases

- None.

DEPARTMENT OF DEFENSE-MILITARY (051)
(budget authority, in billions of dollars)

	<u>1993</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Difference</u> <u>2001 to 2002</u>	<u>% Change</u> <u>2001 to 2002</u>
Proposed Passback:	262.6	287.7	296.1	310.5	+14.4	+4.9

Overview

- The passback level for FY 2002 includes an increase of \$14.4 billion from the FY 2001 enacted level of \$296.1 billion. This level includes funding for \$4 billion in Presidential initiatives for pay, research and development (R&D), National Missile Defense (NMD), a mentoring program, and Plan Colombia. OMB will work with the Department to identify specific offsets for these initiatives. In addition, the passback reflects a decision to transfer \$99 million for the Maritime Security Program from Maritime Administration (Function 054) to the Department of Defense (DoD- -Function 051). The resulting budget authority level for DoD is \$310.5 billion- -an increase of 4.9 percent over the FY 2001 enacted level.
- Included in the President's initiatives for R&D, Plan Colombia, and pay (as applicable, once the exact form of the pay raise is decided) are program activities related to the National Foreign Intelligence Program (NFIP). The Intelligence Community will offset the funding for these activities, unless DoD and the Intelligence Community agree on alternate arrangements, subject to OMB approval.

Initiatives

- Military Pay. This initiative provides a military pay increase of \$1 billion over the recently enacted military pay raise. Although there was an additional pay raise enacted for 2001, the "recently enacted" pay raise refers to the pay reform enacted by the FY 2000 Defense Authorization Act, which authorizes pay raises equal to the Employment Cost Index (ECI) plus .5 percent. The ECI is used to set military and civilian Federal pay raises. The exact type of pay raise has not yet been decided. It could be in the form of an across-the-board pay raise, or targeted raise to basic pay, or as increased funding to current recruiting and retention bonus programs.

- Research & Development (R&D). Funding includes an additional \$2.6 billion in FY 2002 to fund research and development of new technologies in the following four areas: leap-ahead technologies for new weapon systems, improvements to the laboratory and test range infrastructure, technologies aimed at reducing operating costs of weapon systems, and unconventional threats, including intelligence activities. The proposed initiative includes funding for the R&D shortfall in the national missile defense programs.
- National Missile Defense (NMD). The proposed R&D initiative includes \$1.3 billion in FY 2002 to cover known research and development shortfalls in the NMD program of record. DoD could offset this initiative with \$1.5 billion in FY 2002 NMD deployment funding (procurement and military construction), which is available due to fact-of-life delays in the program.
- Veterans for Youth. Funding of \$15 million is provided in FY 2002 to establish mentoring programs for children by providing matching grants to communities that sponsor programs connecting military veterans with youth.
- Plan Colombia. Funding includes \$60 million for DoD of a \$300 million government-wide initiative to continue Plan Colombia. The \$60 million includes recurring DoD efforts begun with FY 2000 supplemental funding for Plan Colombia that must continue in the future. A large percent of the funds would be applied towards intelligence activities. The balance of the \$300 million Plan Colombia initiative, \$240 million, is for State Department related activities (Function 150).
- Maritime Administration. The passback assumes the transfer of the Maritime Security Program and associated funding from the Maritime Administration (MARAD) to DoD. The FY 2002 Passback includes an increase in BA of \$98.7 million to fund the Maritime Security Program. DoD should identify the entity which will administer the program.

Other Issue:

- Mandatory Changes. The FY 2002 National Defense Authorization Act required that all funding for health benefits for Medicare-eligible military retirees be mandatory and based on accrual starting in FY 2003. DoD's mandatory funding levels in FY 2003 would increase by \$6.1 billion- -\$4 billion for new benefits and \$2 billion for a shift in benefits from discretionary to mandatory.

DEPARTMENT OF EDUCATION
(in millions of dollars)

	<u>1993</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Difference 2001 to 2002</u>	<u>% Change 2001 to 2002</u>
BA, Proposed Passback	23,851	29,332	39,936	42,401	+ 2,465	+ 6.2% ¹
Program Level:						
Enacted	23,851	35,579	42,070			
Proposed Passback			40,870 ²	42,101	+ 1,231	+3.0% ³

¹ None of this increase results from Bush initiatives. Increases are due to advance appropriations enacted in FY 2001.

² Does not include \$1.2 billion appropriated for School Renovation, which would be redirected to FY 2002 initiatives.

³ Proposed passback is a 0% increase over the enacted FY 2001 program level.

Initiatives

Initiatives included in President's Elementary and Secondary Education Plan:

- National Assessment of Education Progress (NAEP) (net +\$50 M). The Federal Government would pay for States to participate in an annual NAEP sample exam or its equivalent for students in grades 4 and 8 in reading and math. The total cost in FY 2002 would be \$86 million, incorporating \$36 million from the existing NAEP program.
- State Assessments (+\$220 M). States would be required to conduct annual assessments of all students in at least grades 3-8 in reading and math; the Federal Government would share equally in the cost of developing the tests.
- Performance-Based Awards (\$0). Beginning in FY 2004, States that demonstrate substantial and valid progress on the State assessments would be rewarded (\$100 M annually). Schools that close the achievement gap would receive recognition funds (\$5 M annually).
- Reading First Initiative (net +\$614 M). A new State incentive fund for early reading programs for students K-2 would be added to Title I Aid to Disadvantaged Students. Total funding in FY 2002 would be \$1 billion, incorporating \$286 million from the Reading Excellence Act and \$100 million from the Even Start program.
- Teacher Training Fund (net +\$412 M). Existing Federal funds for professional development, class size reduction, and the Goals 2000 program would be combined with new money into one flexible Teacher Quality fund. Total FY 2002 funding would be \$2.6 billion, incorporating \$2.188 billion from the three existing programs.

- Troops to Teachers (net \$0). Total funding in FY 2002 would be \$30 million, financed with \$3 million from the existing Troops to Teachers program and \$27 million from Transition to Teaching, a companion program for non-military professionals.
- Drug-Free Schools (net \$0). No new funding is required for this \$20 million initiative in FY 2002. Safe and Drug-Free Schools and Communities programs received \$644 million in FY 2001, more than sufficient to finance this activity.
- Charter School Homestead Fund (+\$150 M). Initiative would build on an existing demonstration program to fund credit-enhancement activities by States or regional entities to assist charter schools in finding private capital to acquire, construct, or renovate facilities.
- Individuals with Disabilities Education Act (IDEA) – Part B Grants to States (net \$249 M). Special Education funding would be increased to reflect inflation and an increase in the number of children with disabilities. Total IDEA funding for FY 2002 would be \$6.589 billion, including \$6.340 billion for the existing program.
- Character Education (net +\$17 M). Funding for the existing character education program would be increased. Total funding for Character Education would be \$25 million, including \$8 million from the existing program.
- Militarily Impacted School Construction (+\$62 M). This initiative would provide an infusion into the Impact Aid construction program to build and repair schools serving children of military personnel or children living on Indian lands. Total funding would be \$75 million, incorporating \$13 million from the existing program.

Disability-Related Initiatives ("New Freedom") (net +\$68 M):

Additional funds would be provided for five new initiatives:

- Rehabilitative Engineering Research Centers (net +\$21 M).
- Access to Telework Fund (+\$20 M).
- Assistive Technology Development Fund (net +\$4 M).
- Interagency Committee on Disability Research (+\$3 M).
- Low-Interest Loans for the Disabled (net +\$20 M).

Other Initiatives:

- Reform the Office of Educational Research and Improvement (OERI) (net +\$80 M). OERI would receive increased funding to study ways in which education technology can improve student performance and to establish the Education and Technology Clearinghouse.
- Historically Black Colleges and Universities (net +\$15 M). Funding for the existing

- Historically Black Colleges and Universities (net +\$15 M). Funding for the existing Historically Black Colleges and Universities (HBCU) and Historically Black Graduate Institutions (HBGI) programs would be increased. Total funding for HBCUs would be \$197 million, including \$185 million from the existing program. Total funding for HBGIs would be \$48 million, including \$45 million from the existing program.
- Hispanic-Serving Institutions (net +\$4 M). Funding for the existing Hispanic-Serving Institutions (HSI) program would be increased. Total funding for HSIs would be \$73 million, including \$69 million from the existing program.
- College Challenge Grants (+\$259 M). States would receive Federal funds to help them establish or expand merit-based scholarship programs. Total funding would be \$300 million, including \$41 million from the Byrd Honors Scholarship program.
- Fully Funded Pell Grants (+\$1,082 M). The maximum Pell Grant award would be significantly higher for first-year college students than for students in later years. Total funding for Pell Grants would be \$10,013 million.
- Enhanced Pell Grants (+\$124 M). Pell Grant recipients who passed math or science AP tests or college courses while in high school would receive an additional one-time award of \$1,000.
- Expanded Teacher Loan Forgiveness (Mandatory; +\$14 M). For math or science teachers who majored or minored in math or science, the maximum amount of loans that could be forgiven under the existing teacher loan forgiveness program would be increased from \$5,000 to \$17,500.

This list does not include:

- (1) The \$200 million Math/Science Partnership program announced as part of the President's proposal to reauthorize Education Department elementary and secondary programs. OMB recommends this program be administered by the National Science Foundation.
- (2) The \$400 million After School Certificates program, which would be administered by HHS and is included in the HHS agency summary.
- (3) Additional proposals recently introduced by the Education transition team, such as a new early childhood program, expansion of charter school grants, and increases in the Secretary's discretionary fund, estimated to cost at least \$200 million in FY 2002.

Proposed Reductions

- Unrequested Projects (-\$423 M). Earmarks in eleven programs, including After School, IDEA Research, and the Fund for the Improvement of Postsecondary Education.
- Impact Aid (-\$150 M). Restricts funding to support only those children who impose a substantial burden on local school districts.

- School Renovation (-\$1,200 M). Eliminates the program that helps States finance emergency repairs to school buildings. No funds are provided in FY 2002; FY 2001 funds would be redirected to support FY 2002 initiatives.
- Vocational Rehabilitation (-\$67 M). Eliminates the following rehabilitation programs:
 - Migrant and Seasonal Farmworkers Program
 - Recreational Programs
 - Projects with Industry
 - Supported Employment State Grants
 - Program Improvement
- Vocational Education (-\$300 M in FY 2003). Reduces funding by cutting FY 2003 advance appropriations for the Basic State Grants Program and eliminates the Occupational and Employment Information Program and Tech Prep Demonstrations. (Reflected in FY 2002 program level and scored against FY 2003 BA.)
- Higher Education (-\$19 M). Eliminates the following higher education programs:
 - Strengthening Alaska Native and Native Hawaiian-Serving Institutions
 - Demonstration Projects to Ensure Quality Higher Education for Students with Disabilities
 - Thurgood Marshall Legal Educational Program
 - B.J. Stupak Olympic Scholarship Program
 - Underground Railroad Program
- Safe and Drug Free Schools and Communities (-\$10 M). Terminates funding for Project SERV. Initial appropriation in FY 2001 was to establish a reserve fund for emergency assistance to school districts that suffer traumatic acts or other violent crises. No further funding is needed until these funds have been drawn down.

Mandatory Changes

- Expanded Teacher Loan Forgiveness (+\$14 M). For math or science teachers who majored or minored in math or science, the maximum amount of loans that could be forgiven under the existing teacher loan forgiveness program would be increased from \$5,000 to \$17,500.
- Fully Funded Pell Grants (-\$10 M). Students who received more Pell Grant aid under this initiative would need less loan aid; the cost of the student loan programs would fall.

Selected Increases

- None. We expect the Department of Education to seek increases for high-priority programs, such as Title I (Aid for the Disadvantaged) and Special Education.

DEPARTMENT OF ENERGY
(budget authority, in millions of dollars)

	<u>1993</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Difference</u> <u>2001 to 2002</u>	<u>% Change</u> <u>2001 to 2002</u>
Proposed Passback	19,257	17,752	19,680	18,638	-1,042	-5.3%

Initiatives

- Invest \$2 billion over 10 years for research on "clean coal" technologies. This proposal can be met by combining research activities in DOE's Clean Coal demonstration program account (about \$340 million in unobligated no-year funds remain available) with the relevant coal R&D activities in the Fossil R&D account (about \$170 million per year).
- Increase funding for DOE's weatherization program (+\$120 million). Funding would increase by \$120 million over the FY 2001 enacted level of \$153 million, rising to an increment of about \$145 million in FY 2010. In addition, inflation growth would be provided to the base program. The total would provide the \$1.4 billion through 2010 as proposed for the initiative.
- Fund additional renewable energy activities with bonus bids from leasing a portion of the Artic National Wildlife Refuge. This initiative assumes \$1.2 billion would be available over the next 10 years beginning in FY 2004, to be dedicated to commercialization efforts for solar and renewable energy. A variety of funding strategies could be used beginning with an increment of \$150 million in FY 2004 and increasing to about \$195 million in FY 2010; funds could be focused on technology deployment or R&D.
- Establish a privately-managed Northeast Heating Oil Reserve. DOE established a two million barrel Northeast heating oil reserve in FY 2000. The heating oil and storage facilities are managed by the private sector and were funded through an exchange of oil from the Strategic Petroleum Reserve as authorized under the recently revised Energy Policy and Conservation Act.

Proposed Reductions

- One-time funding offsets, terminations, and reductions (-\$167 million). This reduction results from: elimination of a one-time pension refund which is not available in FY 2002 in an Environmental Management account; a one-time transfer into the Fossil Energy R&D account; and completion of emergency funding for Cerro Grande Fire activities.
- Elimination of unrequested projects (-\$118 million). This covers 61 unrequested lower priority projects funded in FY 2001 in the Science, Solar/Renewables, and Defense Environmental Restoration and Waste Management accounts.

- Environmental Management (EM) (-\$286 million). A three percent general reduction to EM field sites would begin to capture the benefits from DOE's efforts to improve the efficiency of the program through consistent and aggressive reforms in contracting, improved project management, and reduced reliance on support service contractors. This reduction also eliminates funding for low priority staff positions and redundant overhead activities, and applies \$55 million in prior-year balances to EM activities in FY 2002.
- EM Applied Science and Technology Program (-\$100 million). This program, which has spent more than \$3 billion dollars over the past decade with little impact, has been cited several times by Congress and GAO for failing to meet its objectives. The reduction eliminates unnecessary overhead activities and begins the process of terminating unproductive research projects that will not be used in EM cleanup activities.
- Uranium Facilities Maintenance and Remediation (-\$63 million). Eliminate \$21 million to build two depleted uranium hexafluoride (DUF₆) conversion plants in Paducah, Kentucky and Portsmouth, Ohio. This is a jobs program and a low priority based on environmental, safety, or health concerns. The Kentucky delegation has been the program's primary advocate. Realize \$42 million in savings by returning uranium/thorium reimbursement payment to historical levels of about \$30 million now that the backlog of payments to companies that have cleaned-up their sites has been eliminated as a result of a one-time BA increase in FY 2001.
- Advanced Accelerator Applications (-\$34 million). Congress established this new program in FY 2001. Use of accelerators for isotope production and to reduce commercial nuclear waste is a pet project of the National Laboratories, but has little chance of commercial application.
- Science (-\$25 million). Reduce the research effort in Fusion Energy Sciences by \$20 million. Some in the New Jersey delegation are likely to object to a reduction in the fusion program. This reduction would leave \$220 million for fusion research in DOE. Eliminate a new \$5 million initiative in FY 2001 supporting biomedical engineering research at the National Laboratories.
- Energy Conservation (-\$37 million) and Solar Renewables Energy R&D (-\$30 million). Modest reductions are proposed for buildings research, petroleum and aluminum industries energy R&D, and the black liquor gasification program. In the Solar-Renewables energy area, reductions are focused on ethanol production, small hydro-projects, photovoltaic reliability testing, and hydrogen R&D. These are all areas where there is an inappropriate Federal role or where increased private sector cost sharing can reduce Federal funding needs.
- Fossil Energy R&D (-\$66 million) and Nuclear Energy (-\$7 million). Reduce funding for oil and gas R&D in drilling, gas to liquids, and geologic/geophysical research that should be performed by industry (-\$35 million). Eliminate R&D on mid-size turbines and cut high overhead in Fossil R&D. Also, do not provide congressional increases for

unrequested funds for studies of next generation nuclear reactors and reactor design improvements. Private industry has the incentives and resources to conduct this research.

- Increased Cost-Sharing on Applied Energy R&D Programs. Along with the reductions in Energy Conservation, Solar, Fossil & Nuclear energy programs, a new cost sharing policy is proposed for private sector participation. Because private industry is the primary beneficiary of these DOE applied research programs, this policy would provide a "market test" of the value of these programs while reducing Federal costs and increasing the commercial success rates of the research.
- Weapons Activities (-\$138 million). Reduce inertial confinement fusion research by \$25 million in light of delays in National Ignition Facility (NIF) construction. Reduce by \$113 million the \$749 million Accelerated Strategic Computing Initiative (ASCI) program which has nearly doubled since FY 1997. Reductions could be accommodated by combining industrial partnerships, storage and interconnect activities with ASCI's distributed computing strategy. Modest cuts could be made in existing computing center operations, software development for non-materials modeling activities, and computing center construction funds.
- Defense Nuclear Nonproliferation (-\$39 million). Eliminate a \$39 million increase by congress in FY 2001 for materials, protection, control and accounting. Slow development of the U.S. mixed oxide fuel facility to parallel Russian progress.

Mandatory Changes

- None

Selected Increases

- None

DEPARTMENT OF HEALTH AND HUMAN SERVICES
(budget authority, in millions of dollars)

Proposed Discretionary Funding Passback	<u>1993*</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Difference 2001 to 2002</u>	<u>% Change 2001 to 2002</u>
Total HHS	29,299	44,407	52,801	55,037	+2,236	+4%

* FY 1993 numbers were adjusted for comparability.

Initiatives

- Double National Institutes of Health (NIH) (+\$2.404 million over the FY 2002 baseline and \$2.852 million above FY 2001). Double NIH's FY 1998 funding of \$13.6 billion by 2003. FY 2002 increase above the OMB baseline represents the fourth installment of the doubling effort.
- Expanding Community/Migrant Health Centers (+\$100 million over the FY 2002 baseline and \$124 million over FY 2001). Expand the number of C/MHCs to provide more uninsured and underserved Americans with primary healthcare services.
- After School Certificates (+\$400 million above FY 2001). Creates a new program within the Child Care and Development Block Grant, which will provide low-income parents with certificates to help defray the cost of their children's after-school programs.
- Strengthening Fatherhood (+\$64 million over FY 2001). This new responsible fatherhood initiative comprised of competitive grants to local organizations and projects of national significance.
- Healthy Communities Innovation Fund (\$0). The Healthy Communities Innovation Fund is a budget display of existing health programs that contribute to the goals of encouraging local community innovation by funding demonstration/ pilot projects targeted at specific health risks, increasing access, and improving healthcare quality. No new funding would be added in FY 2002 for this Initiative.
- Combined Drug Treatment Initiatives (+\$80 million over the baseline and +\$118 million over FY 2001). Work to close the treatment gap by expanding the availability of drug treatment services, and ensuring the eligibility of faith-based and community-based providers for Federal funding.
- Maternity Group Homes (+\$100 million over FY 2001). Pilot for maternity group homes through a block grant to states. The states will be authorized to make the funds available either as certificates to individuals, or as competitive grants to providers, who will be able to use the funds to purchase or operate a facility.

- Mentoring Children of Prisoners (+\$200 million over FY 2001). Establishes a new program within the Promoting Safe and Stable Families Program to make grants available through States to faith and community-based groups focused on improving the prospects of low-income children of prisoners.
- Compassion Capital Fund (+\$200 million over FY 2001). Establishes a public/private partnership that will provide start-up capital and operating funds to qualified charitable organizations that wish to expand or emulate model programs.
- Best Practices (+\$22 million over FY 2001). Creates a national fund for research on "best practices" among charitable organizations.

Proposed Reductions

- Eliminate unrequested funding (-\$800 million). An estimated \$741 million in Health programs and \$59 million in income maintenance programs in unrequested FY 2001 funding will not be continued in FY 2002.
- Eliminate FY 2001 funding for one-time projects (-\$174 million). An estimated \$174 million could be reduced from the FY 2001 level by limiting construction projects in IHS and CDC, as well as eliminating one-time funding for tobacco litigation.
- Continue the administrative cut in FY 2002 (-\$18 million). FY 2001 L/HHS Appropriations included a \$25 million cut to administrative and related expenditures. HHS' share of the cut is \$18 million and could be continued in FY 2002.
- Reduce funding for HHS- Health Programs (-\$964 million from FY 2001). Sensitive program cuts may include:
 - reduction to CDC chronic disease grants (-\$50 million) from FY 2001,
 - elimination of substance abuse/ mental health Knowledge Development and Application (KDA) demonstration grants (-\$287 million) from FY 2001,
 - elimination of new grants for the disabled (-\$50 million from FY 2001),
 - reduction of funding for nursing home transition grants (-\$17 million from FY 2001),
 - finance data collection, evaluation, and research through HHS' one percent evaluation authority (-\$194 million in BA from FY 2001),
 - elimination of the Community Access Program (CAP) (-\$125 million from FY 2001), and
 - elimination of all Health Professions grants except Health Professions Training for Diversity grants and Nursing Workforce Development grants (-\$166 million from FY 2001).

Mandatory Changes (Not reflected in header table).

- Changes to Medicare/Medicaid/SCHIP budget policies will be addressed on a different track. Downward adjustments to the Medicare and Medicaid spending projections would be generated from removing the SSA disability redesign proposal from the baseline. These adjustments are included in EIML's response to this BDR.
- Charity State Tax Credits. Promote state tax credits for donations to state-designated charities addressing poverty by allowing TANF funds to be used to offset associated state revenue losses. TANF outlays would not increase before FY 2003 and the ten year outlay stream, which will include funding above the baseline, is pending approval.
- Preventative Services. As part of the reauthorization of the Promoting Safe and Stable Families Program in 2001, increase funding by \$200 million annually for services that help families with children at risk of abuse and neglect.
- Ed/Training Vouchers for Older Foster Children. Provides an additional \$60 million annually through the Foster Care Independence Program specifically for education and training vouchers to youth who age out of foster care. These vouchers, worth up to \$5,000 each, can be used for college tuition or vocational training.

Selected Increases

- None

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
(budget authority, in millions of dollars)

	<u>1993</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Difference</u> <u>2001 to 2002</u>	<u>% Change</u> <u>2001 to 2002</u>
Proposed Passback	25,524	23,144	30,782	32,222	+1,440	+5%
Less Renewals and Rescissions	-8,426	-3,111	-9,390	-13,038	-3,648	n/a
Program Level	17,098	20,033	21,392	19,184	-2,208	-10%

From 1993 to 2001, HUD's budget authority increased by \$5.2 billion. Excluding BA changes unrelated to program levels, HUD appropriations increased by \$4.3 billion or 25 percent from 1993 to 2001. Discretionary outlays increased 44 percent (from \$25.0 billion to \$36.1 billion), double the inflation rate. Subsidized housing accounts for about two-thirds of HUD spending. Over the eight years, the number of households subsidized by HUD increased by about five percent, explaining part of the increase; but the average cost of about three million project-based housing subsidies (including public housing) also rose faster than inflation. Other large spending increases were for homeless assistance, the Community Development and HOME Block Grants, and administrative overhead. In most years, the FHA mortgage insurance programs generated net mandatory receipts that offset other HUD spending.

The program level shown above is a good measure of new resources for HUD. It excludes rescissions and the renewal of Section 8 rental contracts. Renewing all existing contracts is the standard budget assumption (with bipartisan acceptance) because it is required to continue support for existing subsidized households.

Initiatives

- CDBG: Community Technology Centers (+\$80M). Announced as part of the education initiative, this funding would create and maintain neighborhood centers to bring new information technology to low-income communities. These technology centers will provide a range of services such as free Internet access, computer literacy training, and professional skills development.
- Down Payment Assistance for Homeownership (+200M; non-add funded within the HOME block grant program). This initiative funds grants for down payment assistance that would be provided through state agencies to match families' savings toward home mortgage down payments. Due to the time necessary to distribute funds to families, outlays are small the first year but grow over time.

Proposed Reductions

- Gradual Conversion of Public Housing to Vouchers (-\$700M). The Public Housing Capital Fund could be reduced by \$700 million relative to 2001 enacted. Renewal funding (\$2.3 billion) would be sufficient to cover the annual rate at which new capital needs accrue, but would not address the \$23 billion backlog of needs. Instead, the backlog could be addressed through programmatic and regulatory tools that would gradually demolish costly, obsolete public housing units and replace them with housing vouchers, which are 8 to 19 percent less expensive.
- Public Housing Drug Elimination Grants (-\$310M): There is no evidence that the Drug Elimination program has been effective at reducing drug use and drug-related crime in public housing. PHAs use these funds primarily to augment security forces and provide after-school programs for youth. PHAs find regulatory tools such as the "One-Strike" eviction rule more effective in eliminating drug crime in their housing developments.
- Community Development Block Grants (CDBG): Member-Sponsored Projects (-413M). All funds appropriated for these set-asides within CDBG are for 798 member projects not requested by the Clinton Administration.
- Cut CDBG and HOME Set-asides (-\$371M): Eliminate all other set-asides from the CDBG and HOME block grants. The CDBG program has several set-asides that have been funded for many years which have strong individual constituencies. These include: the Youthbuild program; funding for the Native American CDBG program; Resident Opportunities and Supportive Services for residents of public housing; Neighborhood Initiative grants to community-based organizations for capacity building; the Community Development Loan guarantee program; assistance to colonias and insular areas; and the University Partnerships program which includes Historically Black Colleges and Universities, Hispanic Serving Institutions, and Alaskan and Hawaiian Serving Institutions.
- Introduce Up-front Premium for FHA Condominium and Single Family Rehabilitation Loans (-\$100M). This would add a 1.5 percent up-front premium for FHA's smaller single family programs, a rate matching that of FHA's major single family program. This would create consistency across the programs and improve the financial health of these smaller programs--recent performance has been weak. The premium increase would discourage some borrowers from using FHA or perhaps even purchasing a home. However, up-front premiums can be financed over the life of the mortgage to lessen the effect on borrowers. Legislation would be needed.
- End FHA Credit Subsidy for Loan Guarantees (-\$101M). This would eliminate support for all FHA programs that require appropriations of credit subsidy to operate: primarily new construction of market-rate (i.e., not income-restricted) apartments as well as some small specialized single family programs. FHA could continue the programs by increasing premiums to eliminate the need for appropriations. This would raise costs to

borrowers and depress demand. Other FHA guarantees would continue without change because they do not require credit subsidy appropriations. Would require legislation.

- FHA Credit Subsidy Emergency Appropriation (-40M): This was a one-time emergency appropriation for shortfall in credit subsidy necessary to meet 2000 demand for loan guarantees of multi-family housing development. It is not needed in 2002 or beyond (no outlay impact).
- Terminate Urban Empowerment Zone (EZ) Funding (-\$185M). Round II EZ communities have received approximately three of ten years of grant funding originally proposed. Grants are flexible funds that complement EZ tax incentives. Little information is available to date on the effectiveness of EZs.
- Technical Assistance (-\$108M). HUD's Technical Assistance (TA) funds augment "Salaries and Expenses" and information technology investments. There is little accountability for how funds are used. This proposal eliminates all earmarked HUD TA except for the Lead Hazard Reduction program, which requires specialized scientific and technical expertise currently in short supply.

DEPARTMENT OF THE INTERIOR (DOI)
(budget authority, in millions of dollars)

	<u>1993</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Difference</u> <u>2001 to 2002</u>	<u>% Change</u> <u>2001 to 2002</u>
Proposed Passback	7,020	8,450	10,205	9,322	-883	-8.7%

Initiatives

- Arctic National Wildlife Refuge (ANWR) Leasing (+\$0). Initiate in FY 2001, within available funds, the oil and natural gas resource studies and environmental studies that are necessary for oil and gas lease sales in ANWR by FY 2004. To meet this schedule, DOI will have to prepare draft legislation in early 2001 and continue studies in FY 2002. The Passback assumes the first lease sale in FY 2004, with bonus bids of approximately \$2.4 billion, to be shared 50/50 with the State of Alaska. Interior will seek additional funds for the studies in FY 2002 (and perhaps FY 2001). See Addendum.
- Fully Fund Land and Water Conservation Fund (LWCF) (+\$161 million). Increase LWCF funding for land acquisition and state assistance to \$900 million by FY 2004, with an emphasis that agencies must give priority to acquisitions that complement state and private landowner conservation planning. See Addendum.
- Eliminate National Park Service (NPS) maintenance backlog (+\$0). Eliminate over five years a backlog in NPS maintenance, estimated at \$3.75 billion. Over \$2.5 billion is already enacted within the current NPS baseline. The remainder could be provided through a combination of increased NPS appropriations, extended recreation fee receipts, and additional park roads funding when the TEA-21 highway bill is reauthorized for FY 2004. No increase at Passback until DOI agrees to implement management reforms aggressively. See Addendum.
- NPS Natural Resource Challenge (+\$20 million). Protect natural resources in national parks by increasing funding for resource inventories and other scientific work.
- Bureau of Indian Affairs (BIA) School Construction (+\$0). Eliminate by FY 2005 BIA's existing \$802 million maintenance backlog of critical renovations and repairs and replace the remaining six schools on the priority list. The \$1.1 billion five-year initiative can be funded within the current BIA baseline because of the large FY 2001 increase. The Passback provides \$246 million (\$47 million below enacted to eliminate add-ons and bring funding levels in line with expected costs) to replace three schools and continue reducing the maintenance backlog. See Addendum.

Proposed Reductions

- One-time Terminations, Offsets, and Reductions (-\$360 million). Eliminate \$360 million in FY 2001 emergency funding, of which \$309 million was one-time emergency wildland firefighting funds. These amounts were needed to address last year's historic fire season, which is not expected to be repeated this year. Even with these reductions, fire preparedness funding in FY 2002 (\$275 million) would significantly exceed the \$176 million enacted in FY 2000 and the \$182 million originally requested in FY 2001. See Addendum.
- Unrequested Projects (-\$88 million). Remove from the DOI baseline the FY 2001 funding for public land, refuge, and water construction projects that were unrequested or lower priority projects. Eliminate numerous FY 2001 add-ons and earmarks in the BIA Operations and Construction accounts.
- General Funding and Workforce Freeze (-\$71 million). Generally hold program funding at the FY 2001 level and the Interior workforce at or about the actual FY 2000 FTE level (67,259 FTEs, or 3,800 below the planned FY 2001 level). DOI will argue that such a freeze would undermine the Bush Administration initiatives that require FTE increases. DOI will also argue that the limitation on FTEs compounds the problem the Department faces in providing its labor-intensive services at a FY 2001 funding level freeze without any inflationary increases for pay, rent, and other cost increases ("uncontrollables"), estimated at roughly \$330 million for FY 2002.
- U.S. Geologic Survey (USGS) (-\$185 million from an enacted level of \$883 million). Passback assumes substantial downsizing; USGS' budget grew nearly 60% from 1993 to 2001. USGS base programs funded in the Interior Appropriations bill that no longer fill a major Federal need would be evaluated for reductions or terminations, as well as newer programs that are primarily responsive to local, State, or academic interests. Potential candidates include the new State planning partnership grants initiated in FY2001; certain geologic hazard, landscape, and mineral assessment and research activities; livable and safe communities programs; toxic hydrology research; certain fisheries research; the International Disaster Information Center; the hazard support system; and administrative costs.
- Conservation Spending Category (CSC) (-\$122 million). Four programs in the CSC, which was authorized in the FY 2001 Interior appropriation act as the appropriators' response to the popular Conservation and Reinvestment Act proposal, are eliminated in order to fund increases in LWCF state grants:
 - (1) the new competitive State wildlife grants program (the \$50 million formula-driven Federal Aid wildlife State grants program supported by State wildlife agencies is retained);
 - (2) the Millennium Initiative to Save America's Treasures, which reached its stated goal;
 - (3) the historic preservation grants to Historically Black Colleges and Universities, which reached its authorized funding level; and

- (4) the Urban Parks and Recreation Recovery (UPARR) program, which was not funded in the 1990s and only received significant funding in FY 2001. Mayors and urban recreation supporters will oppose eliminating a program they fought to restore.

The CSC authorized new spending caps for certain conservation programs (including the LWCF) for FY 2002-2006. The Passback assumes revised caps for FY 2002 and FY 2003. The FY 2002 level would be - \$260 million (-15 percent below) the current cap.

- Miscellaneous Grants and Earmarks (-\$101 million). Remove from the DOI baseline FY 2001 funding for various congressional earmarks and grants that served one-time purposes, but are no longer required.
- United Mine Workers (UMW) of America, Combined Benefit Fund (-\$97 million). Eliminate from the DOI baseline a one-time earmark in FY 2001 to the Office of Surface Mining for an additional transfer to this fund to keep it solvent. Senator Byrd sponsored this funding. The 1992 Coal Act required the Interior Secretary, beginning in FY 1996, to make certain mandatory transfer payments to the UMW Combined Benefit Fund, which pays for the medical costs of retired miners and their dependents whose companies no longer exist.
- Bureau of Reclamation Water Programs (-\$40 million). Reduce funding for lower-priority, ongoing projects, and slow the rate of spending overall.

Mandatory Changes

- Recreation Fee Demonstration Program. Extend for four years (FY 2003-2006) the recreation fee demonstration program for Nation Park Service, Fish and Wildlife Service, and Bureau Land Management. This program increases entrance and user fee collection, but increases mandatory spending even more by allowing agencies to spend both new and existing fee receipts for services and improvements without further appropriations. (Previously, fee receipts expenditures were subject to appropriations). As part of the Bush Administration initiative to eliminate the National Park Service (NPS) maintenance backlog, at least 75 percent of NPS fee receipts would be targeted at deferred maintenance needs. No cost in FY 2002; \$330M over FYs 2002-2011.

Selected Increases

- None

INTERNATIONAL AFFAIRS
(budget authority, in millions of dollars)

	<u>1993</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Difference</u> <u>2001 to 2002</u>	<u>% Change</u> <u>2001 to 2002</u>
Proposed Passback	21,194	23,470	22,661	21,320	-1,341	-5.9%

Initiatives

- Plan Colombia (Assistance for Counternarcotics Activities) (+\$240 million). \$240 million from budget function 150 (along with \$60 million from budget function 050) to continue this program of counter-drug and stability building initiatives in Colombia and neighboring countries. This program was initially funded when Congress provided the Clinton Administration's two-year FY 2000 - 2001 request in the FY 2000 emergency supplemental budget. Thus, even though this plan was conceived as a multi-year effort, there is no FY 2001 appropriation for these programs, and so no baseline funding to continue this initiative.

Proposed Reductions

- One-time Funding Requirements (-\$645 million). Includes proposed reductions from the baseline of \$468 million for one-time FY 2001 contingent emergency appropriations, as well as a net \$100 million reduction in assistance for Israel and Egypt in FY 2002. The remaining one-time actions led to savings of \$77 million, including a cut of \$12 million in the OPIC credit subsidy.
- Department of State/International Peacekeeping Activities (CIPA) (-\$268 million). Eliminates funding in FY 2002 for UN peacekeeping missions in Sierra Leone, the Democratic Republic of the Congo and Bosnia/Herzegovina.
- Department of State/Diplomatic and Consular Programs (-\$18 million). Although a small nominal cut, the impact in real terms requires the State Department to reduce overseas personnel and implement administrative reforms. In addition, the recommendation assumes \$25 million in consular operations will be funded from fee revenue instead of from appropriated dollars.
- Economic Support Fund (ESF) (-\$28 million). In addition to above one time reductions, a further \$28 million includes reductions for the International Fund for Ireland and Cyprus.
- USAID (-\$58 million). Reductions for the U.S. Agency for International Development includes unrequested Congressional add-ons and economic growth programs for middle-income countries, as well as a cut of \$25 million for initiatives in countries in transition.

- Support for Eastern European Democracy (SEED) (-\$23 million). Cuts unrequested earmarked funding for the Baltic nations and budget support to Montenegro, given the fall from power of former Yugoslav President Milosevic.
- Freedom Support Act for the New Independent States (NIS) (-\$106 million). Eliminates assistance programs for the non-reforming countries of Belarus, Turkmenistan and Tajikistan, and cuts economic assistance to Russia, Ukraine, Armenia and Georgia.
- Subsidies for export and investment programs (-\$240 million). Reduces Export-Import Bank credit subsidy by asking the private sector to bear either 10% first loss risk or pay higher fees to achieve equivalent savings, policies to be implemented by a new Bush Administration Ex-Im Bank board chairman. A \$12 million reduction eliminates OPIC subsidy in FY 2002 (another \$12 million was included in one-time funding requirements above), since OPIC is likely to carry over sufficient credit subsidy resources from prior year appropriations.
- Department of State/Non-proliferation, Anti-terrorism, Demining and Related Programs (NADR) (-\$30 million). Eliminates unrequested export control projects (\$10 million), reduces appropriation for Non-proliferation and Disarmament Fund because of large unspent balances (\$5 million), and eliminates funding for the Lockerbie bombing trial costs (\$15 million).
- Other Net Changes (-\$165 million). Includes \$48 million in savings for voluntary contributions to international organizations through zeroing out funding for UN Fund for Population Activities and reducing other international organizations, \$41 million in savings from zeroing Voluntary Peacekeeping training used in 2001 for Nigerian peacekeepers for Sierra Leone and for the African Crisis Response Initiative, and another \$65 million in reductions in seven other accounts of under \$20 million each.

DEPARTMENT OF JUSTICE
(budget authority, in millions of dollars)

	<u>1993</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Difference</u> <u>2001 to 2002</u>	<u>% Change</u> <u>2001 to 2002</u>
Proposed Passback	9,884	18,768	20,364	19,456	-908	-4%

Initiatives

- INS Southwest Border (+ \$161 million). Increase INS' Border Patrol staffing to achieve the additional 5,000 Border Patrol agents (1,000 per year) authorized in the 1996 Immigration Act. In order to fund 1,140 remaining agents to met the 5,000 goal, \$75 million is needed to fund + 570 agents in each of FY 2002 and FY 2003. In addition, \$66 million is needed to annualize 2001 hiring and \$20 million is needed for associated intrusion detection technology.
- Immigration Benefit Backlog Reduction (+ \$71 million). Establish a 6-month standard for processing all immigration applications through a \$500 million 5-year program to fund new personnel, introduce personnel incentives for employees to process cases quickly and make customer satisfaction a priority. The \$100 million in FY 2002 will be funded with \$35 million in base appropriations, \$20 million from premium processing fees, and \$45 million in additional appropriations plus \$26 million to annualize hiring in 2001.
- Project SENTRI (+\$9 million). Expand use of dedicated commuter lanes and electronic pre-screening of travelers at land points of entry (POE) to the United States to improve efficiency of Customs/INS inspection lanes. An additional \$9 million is needed in FY 2002 to expand the improvements to five more POEs on the Southwest border.
- Prison Pre-Release Pilot Program (\$0). Establish a faith-based prison pre-release program at four Federal prisons to generate data on the efficacy of this type of program. Funding of \$5 million would be reallocated for this program from within the Bureau of Prisons' budget base.
- Resources for Southwest Border Drug Prosecutions (\$0). Reimburse counties near the Southwest border for costs associated with prosecuting and detaining Federal drug and alien arrest referrals. Base funding of \$50 million (\$12 million from U.S. Attorneys and \$38 million from State and local prosecutors) would be directed each year to grants for this purpose.

- Methamphetamine Laboratory Clean-up (\$0). Fully fund the methamphetamine laboratory clean-up program at \$200 million over 10 years. DOJ's FY 2001 Appropriations Act provided an additional \$20 million to DEA to assist State and local law enforcement agencies and this sum is in DOJ's budget base; no additional funding is necessary to accomplish the objective. Funding would be transferred from DEA to the Office of Justice Programs to administer this grant program.
- Funding for Drug Courts (\$0). Increase funding for drug courts by \$50 million per year over five years, and \$100 million over 10 years. DOJ's FY 2001 Appropriations Act provided an additional \$10 million for this purpose and this sum is in DOJ's budget base; no additional funding is necessary to accomplish the objective.

Proposed Reductions

- State and Local Assistance (-\$847 million). The COPS program has exceeded its original hiring goal of 100,000 new police officers (about 110,000 have been funded). Therefore, funding for the hiring of additional officers can be eliminated, generating savings of \$396 million in 2002. In addition, the State Prison grant program has largely achieved its goal of encouraging States to adopt truth in sentencing laws -- 30 States have passed stronger sentencing laws and a few additional States are expected to do so. Eliminating this program would generate savings of \$451 million.
- Crime Victims Fund Obligation Limitation (-\$608 million). Limit obligations of the Crime Victims Fund to \$575 million in FY 2002. This will generate savings of about \$608 million. With this obligation limit, total funding for crime victims in FY 2002 would be \$37 million more than the FY 2001 level of \$538 million.
- Telecommunications Carrier Compliance (-\$201 million). The full authorized funding level has been achieved for Telecommunications Carrier Compliance (payments to reimburse the telecommunications industry for costs to modify digital phone systems to allow court-authorized wiretaps). With this amount, no additional funds are needed in FY 2002.
- Unrequested Funding (-\$26 million). The DOJ 2001 Appropriations act included unrequested funding for: the National Institute of Justice for a one-time earmark to Eastern Kentucky University (-\$15 million); for the Drug Enforcement Administration for the one-time purchase of helicopters for Southwest border (-\$6 million); and for one-time construction at a Border Patrol training academy in South Carolina (-\$5 million).

DEPARTMENT OF LABOR
(budget authority, in millions of dollars)

	<u>1993</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Difference</u> <u>2001 to 2002</u>	<u>% Change</u> <u>2001 to 2002</u>
Proposed Passback	9,920	11,227	11,891	10,975*	-916	-7.7%

*Includes administrative reduction from section 520 of P.L. 106-554.

Initiatives: None.

Proposed Reductions:

- Unrequested Projects (-\$97 million). The FY 2001 appropriations included \$97 million for unrequested projects. Recommend eliminating this funding.
- Workforce Investment Act Programs (-\$500 million). Over \$800 million in Federal unobligated balances has been brought forward into FY 2002. States are also spending their grants more slowly than in prior years; for example, FY 2000 actual outlays fell \$1 billion short of the mid-session projection. Given uncertainty about States' ability to spend current balances, recommend reducing FY 2002 BA by \$500 million—pausing the program.
- Incumbent Worker Program (-\$20 million). This program was created in FY 2001 and does not start until July 2001. States already have authority to use Federal training funds for incumbent worker projects. Recommend eliminating this program.
- Alien Labor and H-1B Visa Fees (-\$175 million). Decrease Dislocated Worker Training BA by the amount of the increased training revenue from the existing H-1B visa fee (-\$18M). Reduce Employment Service grants to reflect streamlining of the alien labor certification program (-\$25M). Re-propose a \$1,500 fee on employers requesting certification of permanent alien workers: use the revenue to offset Dislocated Worker Training (-\$105M) and administer the permanent alien labor program (-\$27M).
- Enforcement Agencies and Other DOL Programs (-\$31 million). Eliminate one-time increases for completed projects (-\$12M). Eliminate Harwood training grants in the Occupational Safety and Health Administration (-\$12M). In addition, freeze labor law enforcement agencies. Eliminate the international environmental monitoring initiative (-\$5M). Increase fees for statistical training (-\$2M).
- Federal Workers' Compensation (-\$88 million). Add a 4.5 percent administrative surcharge to the amount billed to Federal agencies for Federal Employees' Compensation Act benefits, offsetting the need for program administration BA, and providing a greater incentive for agencies to improve workplace safety. This is a DOL savings only; other agencies' would be increased. Decreased benefit payments would yield long-term savings.

Mandatory Changes: Pending April budget decisions.

Selected Increases: None.

DEPARTMENT OF TRANSPORTATION
(budgetary resources, in millions of dollars)

	<u>1993</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Difference</u> <u>2001 to 2002</u>	<u>% Change</u> <u>2001 to 2002</u>
Proposed Passback	37,959	49,015	56,792	57,941	+1,149	+2.0%

Initiatives

- Drug Interdiction (+\$243 million). The Western Hemisphere Drug Elimination Act was passed as part of the Omnibus Appropriations Act of 1999. It authorized \$2.6 billion for enhanced international drug eradication, interdiction, and crop substitution efforts. To date, \$1.6 billion has been appropriated. President Bush called for spending \$1 billion over the next five years to fully fund this act. Of the total, the Coast Guard would receive \$857 million from FY 2002-2006 to replace its aging Caribbean fleet.

Proposed Reductions

- One Time Projects (-\$1,197 million). Reflects a reduction in unrequested 2001 Highway Trust Fund projects and Congressional earmarks within the highway, transit and aviation programs.
- Woodrow Wilson Bridge (-\$600 million). This reduction is associated with a one-time 2001 appropriation for the remaining Federal share of rebuilding the Woodrow Wilson Bridge. This is the final installment of a \$1.5 billion Federal payment for this bridge which spans the Potomac on the Capital Beltway (Interstate 495). Remaining funding comes from Maryland and Virginia.
- Highway Emergency Relief (-\$240 million). Reduces the 2001 appropriations level for the Federal Highway Administration's Emergency Relief program which supplements regular highway funds and addresses emergency road and bridge repair following natural disasters. The 2001 appropriation of \$720 million does not need to be repeated, in full, in 2002.
- Transportation User Fees (-\$62 million). Proposes new user fees to offset costs associated with the registration and inspection of hazardous materials (\$10 million) and to support the railroad safety inspection program (\$52 million).
- Maritime Administration (-\$129 million). Reduces funding (-\$30 million) for the Maritime Guarantee Loan (Title XI) subsidy program which provides loan guarantees for the ship building industry and for shipyard modernization. This will eliminate funding for the guarantee program in 2002. The proposal also transfers the Maritime Security Program (MSP) to the Department of Defense (-\$99 million). The MSP provides a subsidy to commercial ship owners to ensure their vessels are available to meet national

defense need and support a viable sealift program.

- Essential Air Service Program (-\$46 million). Reduces subsidized air service to approximately 80 small communities. Currently, one-quarter of subsidized communities in the lower 48 States receive per passenger subsidies in excess of \$200. The proposal would restrict the subsidy to communities with no other forms of transportation (primarily Alaska) and reduce program funding to \$4 million. This program is currently funded by FAA fees. Fee revenue would be retained within FAA and would be used to offset direct appropriations.
- Office of Intermodalism (-\$1 million). This recommendation terminates this office which coordinates transportation policy across the Department. DOT has other offices that can perform this function. The proposal reduces FTE by ten.

Selected Increases

- Highway Funding Guarantee (+\$2,708 million). Available Highway Trust Fund spending is linked to excise tax receipts; the higher funding level reflects increasing receipts. Funding availability under the guarantee program is adjusted annually and is made available for highway spending under the Transportation Equity Act for the 21st Century (TEA-21).
- Mass Transit Funding Guarantee (+\$473 million). The Mass Transit Guarantee program, like the highway program, has its own budget category and funding protection under TEA-21. A reform proposal is included that would establish a formula-based funding program to avoid, to the degree possible, Congressional earmarking of funds.

Sensitive Item

- FAA. Funds FAA at 2001 levels. This does not include capital and operations funding to meet current funding "firewalls" (+\$915 million). Similar to the highway and transit guarantee programs, the Aviation Investment and Reform Act for the 21st Century (AIR-21) links FAA spending to aviation excise taxes and protects these funds through Congressional points of order. Estimate may change upon agency appeal.

DEPARTMENT OF THE TREASURY
(budget authority, in millions of dollars)

	<u>1993</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Difference</u> <u>2001 to 2002</u>	<u>% Change</u> <u>2001 to 2002</u>
Proposed Passback	10,129	12,524	14,042	13,983	-59	-0.4%

Treasury's BA rose by 38% from FY 1993 to FY 2001 (in nominal terms). During the same time, FTE fell by 7% (from 155,031 to 148,831), largely through cuts to IRS that were partially offset by increases in law enforcement, fiscal operations and management. The FY 2002 Proposed Passback is \$59M (0.4%) below FY 2001. As detailed below, increases from the FY 2001 to Customs drug programs (\$59M) and IRS technology investments (\$350M) are more than offset by specific cuts to IRS operations (-\$281M), various law enforcement programs (-\$108M), and other assistance and Management programs (-\$48M). Given the reallocation of resources from FTE-intensive activities (e.g. IRS staffing) to technology investment (e.g. IRS modernization), the FY 2002 level could lead to a 2,100 FTE reduction from the FY 2001 FTE level. Treasury bureaus may argue that the Passback does not provide for other investment and operational needs (e.g., law enforcement radio conversion, anti-terrorism activities at the Olympics, etc.).

Initiatives

- Customs: Western Hemisphere Drug Elimination Act (+\$59M). Of the original \$980M authorized (from FY 1999 to FY 2001) for the Customs Service in the Western Hemisphere Drug Elimination Act, \$358M has been appropriated to date (\$330M in FY 1999, \$0 in FY 2000, \$28M in FY 2001). The President's campaign committed to funding \$1 billion over five years to implement the Act. Customs Service's estimates of \$59 million needed for air and marine interdiction efforts could be seen as its share of the Drug Elimination Act effort in FY 2002.

Proposed Reductions

- IRS Organizational Modernization (-\$100M). By 2002, the organizational modernization effort mandated by the IRS Restructuring and Reform Act of 1998 will be near completion. These resources, used for buyouts, staff and office relocation will no longer be needed.
- IRS Staffing -- Staffing Tax Admin. For Balance and Equity (STABLE) (-\$141M). A new FY 2001 initiative, STABLE, funds staff increases (3,858 new FTE) to halt falling audit rates (i.e., from 0.7% in 1993 to 0.23% in 2000) and to improve IRS's poor customer service (e.g., IRS answered only 62% of phone calls in 2000). IRS staffing has fallen 13% since 1993 (from 114,938 FTE in 1993 to 100,491 in FY 2001). However, long-term, performance-enhancing technology investments (see IRS request under Selected Increases below) should take priority over near-term performance improvements, particularly when they are FTE intensive.

- IRS Business Line Investments (-\$40M). This funding is used for small technology projects to maintain and improve IRS's existing technology systems. However, as with STABLE (above), long-term, performance-enhancing technology investments (see IRS request under Selected Increases below) should have higher priority.
- Eliminate First Accounts and Reduce the CDFI Program (-\$45M). First Accounts -- initiated in 2001 -- seeks to subsidize banking services to the "unbanked," but duplicates other Treasury and Federal agency tools that may achieve the same objective (-\$10M). The Community Development Financial Institutions (CDFI) program supports institutions making economic development investments in distressed communities (-\$35M from \$118M FY 2001 level).
- (b)(7)(e)

Selected Increases

- IRS Technology Modernization (\$350M). This reflects a \$350M increase for IRS technology modernization. Although FY 2001 BA is only \$72M, IRS will obligate \$376M in FY 2001 by exhausting prior year balances. Thus, the actual program spending is well above the FY 2001 enacted level. Also, OMB's investment rules, which we are enforcing, require IRS to obligate for a full "useful" segment, which means the accompanying BA level may be expected to fluctuate widely between years to finance "current services" levels of investment. (Treasury may also seek a similar increase for modernization of Customs' automated import system. That increase could be financed if Customs fees are increased.)

DEPARTMENT OF VETERANS AFFAIRS
(budget authority, in millions of dollars)

	<u>1993</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Difference</u> <u>2001 to</u> <u>2002</u>	<u>% Change</u> <u>2001 to</u> <u>2002</u>
Discretionary Passback	16,885	20,850	22,391*	21,746	-645	-2.9%
Receipts	n/a	573	608	620		
Total Budget Authority	16,885	21,423	22,999	22,366	-633	-2.8%

* Includes \$15 M supplemental, see last item below titled, "Necessary Supplementals in 2001"

Initiatives

- Veterans Benefits Administration (+\$70 million). Veterans disability benefits are mandatory, but the administrative costs of processing claims are discretionary. The presidential initiative for veterans promised to maintain performance in claims processing and implement new requirements to 1) assist veterans with their claims and 2) process new diabetes benefits. This additional funding will have an immediate positive effect on VA's ability to provide timely benefits to new applicants. Additional discretionary funds are requested for 2001 as well, see "Necessary Supplementals in 2001" below.

Proposed Discretionary Decrease (below FY 2001 enacted)

- Medical Care (-\$700 million). The recently signed National Defense Authorization Act of 2001 shifts \$700 million of medical care for veterans from the VA system to the DoD system. Therefore, this option really represents a freeze at the FY 2001 enacted level. Three years ago, VA instituted a mission expansion, allowing high-income, non-disabled veterans (Priority Level 7) to enroll. Under this option, VA likely would reduce enrollment of the current number of Priority Level 7 veterans.

Mandatory Changes

- Eliminate Vendee home loan program (-\$35 million). Eliminate the "Vendee" home loan program, which it is not mission-related. This program allows the general public to receive direct loan financing from VA when purchasing a defaulted VA home (-\$35 M in 2002; -\$293 M 5-year; -\$649 M 10-year).

- OBRA Extenders (-\$21 M in 2003; -\$219 M 5-Year; -\$2,320 10-Year).
 - IRS income verification for means tested veterans and survivors benefits (-\$6 M in 2004; -\$18 M 5-year; -\$48 M 10-year)
 - Round-down disability benefits to nearest dollar after COLA (-\$21 M in 2003; -\$201 M 5-year; -\$815 M 10-year)
 - Limit VA pensions to Medicaid recipients in nursing homes (-\$161 M in 2009; -\$527 M 10-year -- estimate includes a savings to VA and a cost to Medicaid)
 - Continue current housing loan fees (-\$302 M in 2009; -\$930 M 10-year)

Necessary Supplementals in 2001

- Discretionary (part of Bush Initiative): Veterans Benefit Administration (+\$15 million). The duty-to- assist and diabetes requirements take effect in 2001, adding significantly to the workload of an already overburdened system and threatening VA's ability to process new veterans disability claims in a timely manner (\$15 M).
- Appropriated Mandatory (must be done by end of year):
 - ▶ Compensation and Pension (+\$552 million). Additional funds are needed primarily to cover the cost of the 2001 COLA. The 2001 rate, expected to be 2.5 percent, was 3.5 percent (Veterans Compensation Cost-of-Living Adjustment Act (COLA), P.L. 106-475, 11/9/00). If a supplemental is not provided, 2.3 million veterans will not receive their disability payment for September 2001.
 - ▶ Readjustment Benefits (+\$298 million). Additional funds are needed mainly to cover the cost of a 21 percent increase in education benefits for veterans, service members, and dependents, which was enacted in November 2000 after the FY 2001 VA/HUD Appropriations Act.

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
(budget authority, in millions of dollars)

	<u>1993</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Difference</u> <u>2001 to 2002</u>	<u>% Change</u> <u>2001 to 2002</u>
Proposed Passback	284	732	766	430	-336	-44%

Initiatives

- Silver Scholarship (+\$20 million). The "Silver Scholarship" proposal will allow older Americans to volunteer 500 hours of service tutoring and mentoring students in after-school programs in exchange for a \$1,000 scholarship that can be deposited in an education savings account for use by their children, grandchildren, or another child in need. The goal is to provide scholarships to 50,000 children over five years.
- Senior Corps (+\$14 million). The Senior Corps initiative calls for increasing the annual funding for the National Senior Service Corps (NSSC) program from \$189 million in FY 2001 to \$250 million within five years to allow NSSC to increase the number of volunteers by 50 percent. The five-year estimate for this initiative is \$285 million.

Proposed Reductions

- Eliminate expanded or paid volunteer programs created after 1993 (-\$370 million). Programs include: AmeriCorps Grants -\$231M; National Civilian Community Corps -\$21M; unrequested projects -\$12M; OIG -\$3M; Evaluations -\$2M; Program Administration -\$31M; and discontinue funding for the National Service Trust -\$70M. This proposal eliminates more than 42,000 federally supported service opportunities through the AmeriCorps program but maintains the community service infrastructure with programs such as Learn and Serve. In addition, programs such as the Points of Light, America's Promise, the NSSC and the Volunteers in Service to America (VISTA) program would be maintained.

Mandatory Changes

- None

Selected Increases

- None

ARMY CORPS OF ENGINEERS
(budget authority, in millions of dollars)

	<u>1993</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Difference</u> <u>2001 to 2002</u>	<u>% Change</u> <u>2001 to 2002</u>
Proposed Passback	3,720	4,119	4,541	3,930	-611	-13.5%

Initiatives

- None

Proposed Reductions

- Eliminate funding for unrequested projects that are inconsistent with established policies (-\$145 million). This reduction affects the construction (-\$108 million), study (-\$6 million), operation and maintenance (-\$15 million), and Mississippi River and Tributaries (-\$16 million) programs.
- General reduction in funding for ongoing construction projects (-\$258 million). This reduction would allow ongoing projects to proceed, on average, at about 54% of the Corps' estimate of its construction capability (optimal construction schedule). This \$258 million reduction, when combined with the \$108 million reduction for unrequested construction projects, would cut total funding in the general construction program to about \$1.35 billion -- \$366 million less than FY 2001 appropriations of \$1.7 billion, but still comparable to recent years' appropriations (e.g., \$1.375 billion in FY 2000). At this level, there would be no new construction starts in FY 2002. Funding for possible increases, including Everglades restoration (+\$70 million) and Columbia River salmon recovery (+\$50 million), would have to be absorbed. A funding level of \$2.5 billion in FY 2002, an increase of nearly \$800 million over the very large increase that Congress provided in FY 2001, would be required to fund all ongoing construction projects at the Corps' estimate of its full capability.
- Reduce funding for studying new projects (-\$25 million). This reduction would limit or eliminate funding for new studies and would slow the pace of many ongoing studies. This reduction is needed to slow the rate at which potential new projects are added to the existing \$42 billion backlog of ongoing and authorized construction work.
- Reduce funding for low-priority Mississippi River projects (-\$49 million). This reduction would eliminate or substantially reduce funding for certain ongoing projects that are not economically justified, are environmentally damaging, or violate other established policies.

- Reduce funding for low-priority operation and maintenance activities (-\$135 million). This reduction would cut funding for lower-priority operation and maintenance activities, including the maintenance of shallow-draft recreation harbors and low-use inland waterways.
- Freeze other accounts at the FY 2001 level. This would fund all other accounts at the FY 2001 enacted level, including the regulatory program, general administrative expenses, and a program to clean-up certain contaminated sites.

Mandatory Changes

- Increase recreation user fee (\$25 million in receipts). The Corps spends about \$280 million annually on its recreation mission, but collects less than 15% of that amount in recreation use fees.

Selected Increases

- None

ENVIRONMENTAL PROTECTION AGENCY
(budget authority, in millions of dollars)

	<u>1993</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Difference</u> <u>2001 to 2002</u>	<u>% Change</u> <u>2001 to 2002</u>
<u>Proposed Passback</u> (excluding CWSRF)	4,995	6,223	6,465	5,905	-560	-8.7%
<u>Decision w/CWSRF</u>	6,923	7,568	7,812	6,705	-1,107	-14.2%

Initiatives

- None

Proposed Reductions

- Overview -- While each of the proposed reductions is well justified individually, the reduction in EPA's overall level will be controversial. Although President Clinton also cut EPA's request in FY 2001 by \$300 million below FY 2000, the Decision level with the Clean Water SRF cut not only is over \$500 million below the 2001 Clinton request, but is also over \$200 million below the 1993 Bush enacted level (even without adjusting for inflation). Environmental groups will be particularly sensitive to the \$220 million reduction to EPA's Operating Program, which includes the regulatory and enforcement programs, even though much of the reduction is due to eliminating Congressional earmarks.
- Eliminate Unrequested Projects (-\$484 M). Eliminates funding for unrequested projects, most of which are unauthorized; of local rather than national concern; and/or funded outside the normal competitive process.
- Freeze EPA workyears at current on-board level of 17,500 FTE (-\$45 M). The 2001 enacted level includes funding for the full 18,000 FTE for which EPA is authorized, but these positions are not currently filled.
- Reduce funding for Clean Water State Revolving Fund (CWSRF) to Clinton 2001 request (-\$547 M). The CWSRF would be funded at \$800 million through 2005, continuing the Clinton policy of capitalizing the CWSRF sufficiently to make \$2 billion in loans annually, over the long run, after capitalization ends. The reduction of \$547 million in FY 2002 will generate criticism from municipal and state interest groups. Congress will most likely increase the funding, as it has done the past few years. This decision will not be included in Passback.

- Devolve EPA resources to States (\$0). Devolve to States, through increased State Grants, a portion of EPA's enforcement resources that are currently devoted to supplementing State enforcement actions in States with delegated enforcement responsibility. This involves a \$25 million transfer to State grants, but results in no net change in EPA's budget.
- Eliminate smaller Clinton programs (-\$27 M). Eliminate funding for several small programs funded by the Clinton Administration (- \$27 M), including Global Learning and Observation to Benefit the Environment (GLOBE), Environmental Monitoring for Public Access and Community Tracking (EMPACT), environmental education, and a targeted wastewater grant for Bristol County, MA.
- Abolish statutory cap on fees (-\$4 M). Abolish the outdated statutory cap on Pre-manufacturing Notification fees so that the fees cover EPA's full cost of running this program. EPA collects fees from chemical manufacturers seeking to bring new chemicals into commerce.

Mandatory Changes

- None

EPA Budget: Detail by Major Program

(BA, \$ millions)	<u>1993</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Difference 2001 to 2002</u>	<u>% Change 2001 to 2002</u>
Operating Program	2,767	3,537	3,858	3,638	-222	-5.7%
Clean Water SRF	1,928	1,345	1,347	800	-547	-40.6%
Drinking Water SRF	0	820	823	823	0	0%
Targeted Wastewater	556	395	445	109	-336	-75.5%
Superfund	1,589	1,400	1,267	1,267	0	0%
Other	84	70	72	68	-4	-5.6%
TOTAL	6,923	7,568	7,812	6,705	-1,107	-14.2%

FEDERAL COMMUNICATIONS COMMISSION

Revenue Enhancements
(in millions)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
1. Analog Spectrum Lease Fee	—	—	+200	+200	+200
2. Channel 60-69 Auction	—	—	-2,600	—	+7,100

1. Analog Spectrum Lease Fee (+\$200 million). The Administration would propose a \$200 million annual lease fee on commercial television broadcasters' use of the analog spectrum. While many commercial users must pay for spectrum licenses at auction, television broadcasters currently pay nothing to use two channels of spectrum — one for analog broadcasting, the other for digital. Broadcasters are currently converting to digital television broadcasting. By statute, broadcasters must cease analog broadcasts by 2006 or when 85 percent of the viewing public can receive digital signals, whichever is later. The analog spectrum must be auctioned by 2002 to new entrants.

The fee would provide an incentive for broadcasters to meet the digital transition deadline and promote an expeditious return of the analog spectrum for alternative use. Each of 1,243 commercial broadcasters would pay \$161,000 on average.

2. Delay and Enhance Auction 60-69 (700 MHz). The Administration would encourage the Federal Communications Commission (FCC) to delay the auction of spectrum within television channels 60-69, currently scheduled for March 6, 2001. While the proposal reduces expected auction receipts by \$2.6 billion in 2002, it will lead to an increase of about \$7.1 billion in receipts in 2004 as a result of increased certainty for auction participants. The offset could be discretionary or mandatory.

The FCC would have to announce the delay before February 2, 2001. The FCC is currently considering delaying the auction in response to requests from industry (e.g., Verizon). The President's Budget would propose legislation that establishes a method for relocating the incumbent small broadcasters from channels 60-69 to other available spectrum. The language would specify that the FCC should conduct the auction so that receipts are collected by the close of FY 2004. The proposed language is designed to balance equities among broadcasters, new wireless entrants, and the public (for use of a scarce resource).

FEDERAL EMERGENCY MANAGEMENT AGENCY
(budget authority, in millions of dollars)

	<u>1993</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Difference</u> <u>2001 to 2002</u>	<u>% Change</u> <u>2001 to 2002</u>
Proposed Passback	2,573	3,944	2,434	2,749	+315	12.9%

The Clinton Administration reduced FEMA's emphasis on civil defense in favor of natural disaster preparedness and response activities. Since 1993, FEMA disaster spending has grown dramatically, reflecting a growing number of Presidential disaster declarations and rising costs per disaster. A series of major natural disasters also drove FEMA disaster spending higher.

Proposed Reductions

- Project Impact (-\$25 M). Terminate Project Impact disaster awareness campaign, which has been characterized more by public relations than effective mitigation investments.
- Hazard Mitigation Grants (-\$83 M). Increase state matching requirement from 25% to 50% (the pre-1993 practice), as a larger non-Federal contribution will help ensure that States pick projects that reduce the costs of future disasters.
- Emergency Food & Shelter (-\$40 M). Reduce homeless assistance to FY 1999 level (\$100 M), as strong economic and job growth has undercut the need for recent increases.
- Firefighter Grants (-\$100 M). Eliminate new grant program, since deaths and injuries from fires have been declining in recent years and there is little evidence to support need for additional Federal assistance to local fire departments.
- Public Building Insurance Rule (-\$83 M). Require States/localities to insure public buildings as a prerequisite for receiving disaster relief to rebuild/repair these facilities following disasters.
- Unobligated Balances (-\$150 M). Take savings from the Cerro Grande (Los Alamos fire) Claims Fund and Hurricane Floyd buyout program unobligated balances, which are over funded.

Mandatory Changes

- Repetitive Loss Properties (-\$65 M). Cancel the Federal flood insurance policies of 8,300 repetitive loss properties that experience chronic flooding and repeat claims.
- Subsidized Flood Insurance (-\$12 M). Phase out subsidized premiums for non-primary residences (e.g., second & vacation homes) insured through the Federal flood insurance program.

Selected Increases

- Disaster Relief Funds (+\$854 M). Restore total disaster relief funding to \$3.2 billion, the 5-year average of obligations for disaster relief, after including expected unobligated balances carried over from 2001. (Funding for FY 2001 was offset by \$1.9 billion in unreleased emergency funding and unobligated balances.) Because the outlay rate in the first year for disaster relief funding is zero percent, this proposal would have no outlay impact in FY 2002.

GENERAL SERVICES ADMINISTRATION
(budget authority, in millions of dollars)

	<u>1993</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Difference 2001 to 2002</u>	<u>% Change 2001 to 2002</u>
Proposed Passback	602	-30	471	452	-19	-4.0%

Initiatives

- None.

Proposed Reductions

- Courthouses (-\$289M). Includes an advance appropriation of \$276 million (appropriated in the FY 2001 cycle for use in FY 2002) for four courthouse construction projects. Does not include any additional FY 2002 funds for new courthouse construction projects.
- Unrequested Projects (-\$12M). The FY 2001 Treasury General Government Appropriations Act included one-time appropriations for eleven, small unrequested projects which should be removed from the FY 2002 and subsequent baseline estimates.
- Presidential Transition (-\$7M). Funding for this program is not required in FY 2002, as presidential transitions are funded every four years (when there is a Presidential election).

Mandatory Changes

- Asset Sales. The mandatory baseline includes \$340 million for the sale of Governors Island in New York Harbor (\$300 million) and the Washington, D.C. Union Station Air Rights (\$40 million). The 1997 Balanced Budget Act requires the sale of these two properties in FY 2002.

Selected Items for Passback

- Commerce Facilities at Suitland, MD. Funds will be spent from GSA's budgetary base to begin reconstruction of dilapidated Commerce facilities (NOAA and Census) at their Suitland, Maryland locations.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION (NASA)
(budget authority, in millions of dollars)

	<u>1993</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Difference</u> <u>2001 to 2002</u>	<u>% Change</u> <u>2001 to 2002</u>
Proposed Passback	14,323	13,601	14,254	14,266	+12	+0.1%

Initiatives

- None

Proposed Reductions

- Eliminate Unrequested Funding (-\$219 million). This represents unrequested congressional funding in NASA's FY 2001 budget.
- Limit Space Station Funding To Five-Year Plan (\$0 million). Provides no additional funding for continued Station cost growth. Should finish assembly one year early (2005) after international partners are in orbit. Compared to original plan, provides reduced research capability and extends existing dependence on some Russian capabilities at least three years beyond currently planned transition in 2005-6.
- Limit Institutional Activities (+\$136 million). Cuts \$11 million by eliminating planned increase of 117 FTEs. Provides \$148 million increase for salaries and associated cost for remaining workforce of 18,741 FTEs. Thus, net increase of \$137 million.
- Reduce Aero-Space Technology (-\$100 million). Eliminates lower-priority projects, including engineering software tool program, rotorcraft program, increase for IT research, and placeholder for future earmarks.
- Reduce Space Science (-\$16 million). Eliminates two new missions (Pluto-Kuiper Express and Solar Probe). Also reduces information technology spending.
- Reduce Earth Science (-\$66 million). Cancels an ongoing Earth observing mission ("Triana"), delays proof-of-concept remote-sensing mission, and eliminates some environmental application and education activities.

Selected Increases

- Maintain Development Programs (+\$277 million). Provides funds for planned increase included in the FY01 Five-Year Budget Plan for FY02 to maintain many on-going space missions. Like DOD programs, these missions need multi-year funding so development plans are consistent with capital budgeting requirements. Five-year plans prevent historical problem of creating large, unfunded future liabilities. *This increase maintains NASA's FY 2001 five-year planning projection for those projects not reduced or eliminated above.*

NATIONAL SCIENCE FOUNDATION (NSF)
(budget authority, in millions of dollars)

	<u>1993</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Difference</u> <u>2001 to 2002</u>	<u>% Change</u> <u>2001 to 2002</u>
Proposed Passback	2,750	3,897	4,416	4,448	+ 32	+ 0.7%

Initiatives

- Math/Science Partnerships (+\$90 million). Initiative would support partnerships between institutions of higher education and State K-12 school systems to strengthen K-12 math and science education. Total initiative is \$200 million per year, including \$110 million redirected from NSF's Education System Reform program.

Proposed Reductions

- Eliminate Unrequested Funding (-\$45 million). The FY 2001 appropriations including funding for unrequested projects: astronomy facilities, research aircraft, the Children's Research Initiative, an Innovation Partnerships program, and a Research Vessel study. NSF would like to continue all these efforts in FY 2002, which would require at least \$72 million above the FY 2001 enacted level.
- One Time Reductions (-\$13 million). In FY 2001, funding for South Pole modernization and the design of the Millimeter Array will be completed. This reduction assumes there will be no major facility project starts in FY 2002.
- Freeze Research Programs. NSF research funding has doubled since 1990 to \$3.4 billion. Freezing research programs would fund \$1.6 billion in new research awards in FY 2002, compared to \$1.73 billion in FY 2001. The reduction might reduce the number of new FY 2002 awards by 200 below an estimated 6,000 new awards in FY 2001.
- Freeze Other Education Programs. The resulting FY 2002 education program level of \$865 million, including the Math/Science Partnerships initiative discussed above, would be 10 percent higher than FY 2001 and 26 percent higher than FY 2000.
- Freeze Salaries and Expenses and Inspector General. Freezing funds for NSF salaries and expenses and the Inspector General's office might require an FTE reduction of up to 50 from the FY 2001 level of 1,204, approximately a 4-percent reduction in civil servant staff levels.

TOTAL FEDERAL DRUG CONTROL FUNDING
(budget authority, in millions of dollars)

	<u>1993</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Difference</u> <u>2001 to 2002</u>	<u>% Change</u> <u>2001 to 2002</u>
Proposed Passback	12,036	18,101	18,345	18,679	+334	+1.8%

Initiatives

- Plan Colombia (+ \$300 million). Continue the program of counterdrug and stability building initiatives in Colombia and neighboring countries begun with the \$1.3 billion emergency supplemental appropriation for Plan Colombia (+\$240 million for State and +\$60 million for Defense).
- Western Hemisphere Drug Elimination Act (+ \$302 million). Provide +\$243 million for the first year funding of Coast Guard ships and aircraft and +\$59 million Customs Service aircraft and surface vessels authorized but as yet unfunded in the Western Hemisphere Drug Elimination Act of 1998.
- National Institute on Drug Abuse (NIDA) (+ \$110 million). Set NIDA on a path to be doubled by 2003, as part of the larger initiative to double funding for NIH.
- Drug Abuse Treatment Programs (+\$109 million). Provide \$98 million for Substance Abuse and Mental Health Services Administration (SAMHSA) programs and \$11 million for Justice's residential substance abuse treatment program for first-year funding for the initiatives to increase access to substance abuse treatment services, including faith-based and community-based providers, and to help close the "treatment gap," defined as the gap between those in need of treatment and those with access to it.
- Safe and Drug-Free Schools (+20 million). Enhance funding for the Safe and Drug-Free Schools program to accomplish the President's objective of increasing funding for that program by \$100 million over five years.
- Drug-Free Communities Program (DFCP) (+\$10 million). The proposed initiative is accomplished by a \$10 million annual increase over the FY 2001 baseline for FY 2002, \$20 million annual increase for FY 2003, \$30 million annual increase for FYs 2004 and 2005, and \$35 million annual increase for FYs 2006-2011.
- Coordinating U.S. Intelligence Efforts to Counter Drug Trafficking (\$0). Make the collection and coordination of intelligence on drug trafficking organizations a priority for the U.S. intelligence community. No increase over FY 2001 required to accomplish the proposed initiative, assuming continued absorption of approximately \$7 million by participating agencies -- principally DoJ, CIA, DoD, and the Treasury.

- Mobilize a Parent Drug Corps (+\$5 million). Provide \$25 million over 5 years in matching funds to national parents' organizations to train parents in communities nationwide in how to reduce drug abuse and form parent drug prevention groups.
- Counterdrug Research and Technology (+\$4 million). Increase funding for new technology to improve interdiction and coordination among law enforcement. \$4 million annual increase over FY 2001 baseline accomplishes proposed initiative.
- Resources for Southwest Border Drug Prosecutions (\$0). Reimburse counties near the Southwest border for costs associated with prosecuting and detaining Federal drug and alien arrest referrals. Base funding of \$50 million (\$12 million from U.S. Attorneys and \$38 million from State and local prosecutors) would be directed each year to grants for this purpose.
- Methamphetamine Laboratory Clean-up (\$0). Fully fund the methamphetamine laboratory clean-up program at \$200 million over 10 years. DOJ's FY 2001 Appropriations Act provided an additional \$20 million to Drug enforcement Administration to assist State and local law enforcement agencies and this sum is in DOJ's budget base; no additional funding is necessary to accomplish the objective. Funding would be transferred from DEA to the Office of Justice Programs to administer this grant program.
- Funding for Drug Courts (\$0). Increase funding for drug courts by \$50 million per year over five years, and \$100 million over 10 years. DOJ's FY 2001 Appropriations Act provided an additional \$10 million for this purpose and this sum is in Justice's budget base; no additional funding is necessary to accomplish the objective.

Proposed Reductions

- Public Housing Drug Elimination Grants (-\$310 million). Eliminate HUD program awarding grants to Public Housing Authorities. There is no evidence that it has been effective in reducing drug use and drug-related crime in public housing.
- Knowledge Development and Application grants (-\$171 million). Eliminate the SAMHSA grant program, much of which is redundant with work performed at NIDA.
- Unrequested Treasury Projects (-\$136 million). Discontinue funding for unrequested projects included in the Treasury Department's FY 2001 appropriation.

OFFICE OF PERSONNEL MANAGEMENT (OPM)
(budget authority, in millions of dollars)

	<u>1993</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Difference</u> <u>2001 to 2002</u>	<u>% Change</u> <u>2001 to 2002</u>
Proposed Passback	215	196	207	207	0	0%

Initiatives

- None

Proposed Reductions

- None

Mandatory Changes

- Civil Service Retirement Fund Contributions. The higher agency contributions to the civil service retirement fund mandated by the BBA of 1997, which under current law expire in January 2003, would be extended indefinitely. While this change does not affect OPM direct spending, it does increase offsetting receipts, which has the effect of reducing total government outlays. Following are the estimated increases in agency contributions: FY 2003, \$316 million; FY 2004, \$373 million; FY 2005, \$327 million; FY 2006, \$287 million; FY 2007, \$242 million; FY 2008, \$192 million; FY 2009, \$138 million; FY 2010, \$76 million; FY 2011, \$22 million.
- FEHBP Savings. A proposal to achieve possible savings in the Federal Employees Health Benefits Program (FEHBP) is under review.

Selected Increases

- IT Infrastructure. Additional funding for information technology infrastructure is under review.

REGIONAL DEVELOPMENT COMMISSIONS
(budget authority, in millions of dollars)

<u>Proposed Passback</u>	<u>1993</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Difference 2001 to 2002</u>	<u>% Change 2001 to 2002</u>
Appalachian Regional Commission	53	66	77	50	-27	-35 %
Denali Commission	0	20	30	20	-10	-33 %
Delta Regional Authority	0	0	20	20	0	0 %

Proposed Reductions

- Appalachian Regional Commission (ARC) (-\$27 million). The ARC region is comprised of portions of thirteen States. First, ARC funding would be reduced by \$16 million and would be focused on the region's distressed counties. This would eliminate the small amounts of funding received by Maryland, New York, and South Carolina. It would tend to focus available funding on Kentucky, West Virginia, Mississippi, Ohio and Tennessee. Second, a one-time construction project (\$11 million for Ritchie County, WV) would not be repeated. Sen. Byrd is a prime proponent of the ARC and may object to the overall cut and targeting.
- Denali Commission (-\$10 million). The Denali Commission was initiated by Senator Stevens in FY 1999 to provide funds for infrastructure development in rural Alaska. The proposed \$10 million reduction would return the Denali Commission to its authorized level of \$20 million. While the Commission serves many poor communities, there is no interstate component to its mission and the State of Alaska is in excellent fiscal condition.
- Delta Regional Authority (DRA) (level funded). The DRA was created starting in FY 2001 to assist distressed communities in eight States in the Mississippi Delta. The poverty rate in the Delta's distressed counties is twice the national average and per capita income is about half of the national average.

SMALL BUSINESS ADMINISTRATION
(budget authority, in millions of dollars)

	<u>1993</u>	<u>2000</u>	<u>201</u>	<u>2002</u>	<u>Difference</u> <u>2001 to 2002</u>	<u>% Change</u> <u>2001 to 2002</u>
Proposed Passback	898	891	899	684	-215	-23.9%

Due to supplemental disaster appropriations, SBA's budget has varied widely since 1993, ranging from \$822 million in 1999 to \$1.9 billion in 1994. Since 1993, declining subsidy costs¹ and a 20 percent FTE reduction (-1,000) have enabled SBA to offset the cost of increasing business loan volume (\$6 billion to \$10 billion) and technical and business assistance (\$89 million to \$244 million).

Initiatives

- Drug Free Workplace. Expand SBA's support of drug free work place programs operated by non-profit organizations and States by providing an additional \$25 million over five years (Campaign commitment).
- Americans with Disabilities Act (ADA) (nominal cost +\$200,000 per year). Provide additional assistance to small businesses to help them comply with the requirements of the ADA (Campaign commitment).

Proposed Reductions

- Eliminate Unrequested Items (-\$42 million). Eliminate 37 unrequested projects.
- New Markets (-\$59 million). Seek no additional funding for SBA's New Markets initiative (begun in FY 2001). The initiative already includes a 30 percent tax break expected to induce \$15 billion (over 10 years) in new targeted investments, making the need for separate SBA discretionary funding questionable.
- Microloan & PRIME (-\$38 million). Do not request FY 2002 funding for these programs, which duplicate other existing programs (i.e., CDFI Fund and SBA's 7(a) general business loan program) or provide assistance that is available from commercial banks.
- Small Business Development Centers (SBDC) (-\$12 million). Apply a \$20 fee for SBDC services (600,000 clients per year). Fees would decrease the SBDC's reliance on Federal assistance while helping to manage program demand.
- 7(a) General Business Loan Program (-\$115 million). Increase fees to make the program self financing. This would have the Federal Government acknowledge that some small businesses may have trouble accessing private capital in the absence of a government guarantee, but not subsidize their cost of borrowing.

¹Based on the estimated probability of default and financial loss to the Government over the life of a loan.

- Disaster Business Loans (-\$36 million). Increase the interest rate charged for post-disaster business loans from 4.14 to 5.8 percent. Businesses, unlike homeowners, can write losses off on their taxes.

Selected Increases

- Disaster Loan Subsidy (+\$82 million). Carryover balances available in FY 2001 cause the baseline to understate future disaster needs. Adjustment restores the five year average.

SMITHSONIAN AND OTHER CULTURAL AGENCIES
(budget authority, in millions of dollars)

	<u>1993</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Difference</u> <u>2001 to 2002</u>	<u>% Change</u> <u>2001 to 2002</u>
Proposed Passback	433	595	620	610	-10	-2%

Initiatives

- None

Proposed Reductions

- Smithsonian Institution (-\$5 million). This eliminates unrequested congressional funding in FY 2001 and freezes the agency at FY 2001 level. Concerns with freeze to the Smithsonian include 1) It is a very personnel-intensive agency, with 59 percent of its federal funding for salaries and benefits. Under a freeze, it would have to absorb required increases for Federal-wide pay raises, promotions and within-grade increases, and Federal transportation subsidies. With the high percentage of federally-appropriated funds going toward salaries and benefits, it has little leeway to accommodate these increases without hiring freezes. 2) The Smithsonian Institution has major requirements for repair and restoration of facilities, and a large number of planned restoration projects. Last year, the Smithsonian closed the Patent Office Building, which houses the Smithsonian American Art Museum and the National Portrait Gallery, for a planned three-year period for a major renovation of the 150-year-old building. However, the cost projections provided by the Smithsonian for this project last year now appear to be a gross underestimate (e.g. total cost of \$60 million to Federal government in FY 2001 request; current estimate of the total project is \$211 million). Freezing the budget would slow these renovation projects, likely increasing the total cost.
- National Gallery of Art. This freezes the agency at the FY 2001 level. The Gallery is also personnel-intensive, with 62 percent of its federal funding for salaries and benefits, and would face the same problems as the Smithsonian in absorbing a freeze. The Gallery also has repair and restoration requirements and is in the 3rd year of a long-term plan to upgrade and improve its facilities. Freezing the budgets for the Gallery would slow these renovation projects, likely increasing the total cost.
- Others (Kennedy Center for Performing Arts, U.S. Holocaust Memorial Museum, Woodrow Wilson Center, Commission of Fine Arts, National Capital Planning Commission) (-\$5 million). This eliminates a one-time appropriation to the Wilson Center's endowment fund in FY 2001. These agencies are also personnel-intensive, and would face difficulties absorbing required increases for salaries and benefits under a freeze.

SOCIAL SECURITY ADMINISTRATION
(discretionary budget authority, in millions of dollars)

	<u>1993</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Difference</u> <u>2001 to 2002</u>	<u>% Change</u> <u>2001 to 2002</u>
Proposed Passback	4,823	6,691	7,216	7,624	+408	+5.7%

Initiatives

- None

Proposed Reductions

- None

Mandatory Changes

- Remove disability process redesign costs from the baseline (-\$228 million). SSA has developed a time-saving and more accurate process for handling disability claims which will likely lead to higher program costs. The January baseline assumes implementation of the new process although complete cost information will not be available until later in 2001. EIML recommends removing the preliminary cost estimate from the baseline until complete data are available and a decision on implementation timing is finalized (-\$228 M in FY02, including -\$43 M from Medicare/Medicaid; and -\$44.5 B from FY 2002-2011, including -\$17.7 B from Medicare/Medicaid).

Selected Increases

- Disability Claims Processing (+\$408 million). This increase will allow SSA to maintain its expected performance in the area of disability claims processing.

JUDICIARY
(budget authority, in millions of dollars)

	<u>1993</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Difference</u> <u>2001 to 2002</u>	<u>% Change</u> <u>2001 to 2002</u>
Proposed Passback	2,367	3,663	3,975	4,293	+318	+8%

Proposed Reductions/Increases

- Increase from 2001 enacted (+\$318 million) but reduction from Judiciary's request (-\$260 million). The Judiciary has requested a \$578 million increase over 2001 enacted level (+15 percent). A so-called 'negative allowance' of -\$260 million would reduce the request to a \$318 million increase (+8 percent). An 8 percent increase is the average annual growth in the Judiciary's budget over the past five years, as approved by Congress.
 - While the Administration is required by law to transmit the Judiciary's request in full, on several occasions prior Administrations have included a negative allowance in a separate part of the budget to adjust the overall discretionary spending levels to reflect a more likely level of growth for the Judiciary.
 - The Judiciary strongly opposes negative allowances, arguing that the President is required by law to transmit its budget in full and that separation of powers prohibits him from changing it through negative allowances. Prior Administrations have disagreed with this interpretation as long as the Judiciary's request is transmitted in full. Congress is not required to accept the President's negative allowance.

ADDENDUM

U.S. DEPARTMENT OF AGRICULTURE

- I. Increase WIC Funding in FY02 by \$90m to Maintain the Baseline Level. Funding for FY01 is sufficient to support participation by 7.34 million women, infants, and children monthly. Applying seasonal patterns over the past five years to the October 2000 participation level of 7.29 million yields a year end participation level of 7.30. A freeze would mean that funding in FY02 would be sufficient to support an average of 7.00 million monthly, which means an average of 340,000 fewer individuals monthly would be able to receive benefits in FY02 than projected for FY01. Maintaining the baseline level would support an average of 200,000 per month fewer participants than projections for FY01. New estimates of participation for November and December 2000 indicate that participation was significantly higher than our projections. If this trend continues, maintaining the baseline level of funding would require greater participation reductions than the monthly average of 200,000 projected above. **[DECISION NOT YET MADE]**

- II. National School Lunch Evaluation. The Economic Research Service must develop, for OMB approval, a plan for assessment of alternatives to the current application, certification, and verification processes in the National School Lunch Program, including a plan for conducting a rigorous evaluation of the existing pilot projects implementing approaches. **[Pending approval]**

- III. Interagency Process to Improve Food Donations Decision. In order to implement its policy of using CCC-funded Sec. 416(b) donations overseas for humanitarian direct feeding programs only, the Administration will establish a new interagency review process. This process will reflect principles of performance-oriented government, including:
 - the interagency group will be made up of all cognizant Federal agencies, with a rotating agency chair.
 - USDA will periodically report on projected surplus US commodities with objective, comprehensive, and transparent analysis requested by the group;
 - a level of commodities available for donation by USDA will be decided in light of program guidelines, including: direct feeding of the neediest populations, enhancement of US farm income, non-interference with commercial trade, minimal negative impact on local markets, and budget costs;
 - the program level will be determined before decisions are made about recipients;
 - criteria will be established for determining priorities among the proposed country allocations,
 - monetization of donations would be permitted only in extraordinary circumstances in order to facilitate direct feeding of hungry populations and people in crisis;

- CCC authorities will fund, as permitted, food, transport and direct support costs for emergency food uses, and food and disposal costs for non-emergencies; and
 - USAID will be responsible for dealing with the UN's World Food Program, including the reform of its overhead costs.
- IV. Census of Agriculture. The Passback mark assumes that funding to account for the cyclical nature of the five-year Census of Agriculture, which will next be conducted during FY 2002, would be reallocated from other USDA resources available within Passback total. OMB currently estimates these additional costs to be between \$15 million and \$20 million.
- V. Reduce USDA's Funding for Central Administration (-\$36 million). This reduction comprises a five percent across-the-board reduction from the FY 2001 enacted level, except for GSA Rentals and South Building renovation. Completion of the renovation would be stretched out by 1-2 years. Increases in GSA rentals would be funded by reducing other areas within Central Administration.
- VI. Reduce USDA Program Overlap with Other Federal Agencies.
- Rural Utilities Service Water and Wastewater Grants and Loans (no savings in FY 2002). The FY02 Water and Wastewater grant BA and loan levels would be funded at the same level as in FY 2001. This funding would be targeted to high-need areas less likely to be served by EPA's Clean Water and Drinking Water State Revolving Funds or other Federal programs.
 - Rural Housing Service (no savings in FY 2002). All loan levels, grant BA, and S & E will be frozen at the enacted levels. At this level, overlap with HUD's FHA program would be reduced.
- VII. Reduce USDA electric and telephone loan subsidy BA to level needed to support FY 2001 loan levels (-\$24 million). The FY 2002 subsidy rate estimate for these loans has decreased due to current economic assumptions of declining Treasury (discount) rates. BA can be reduced while maintaining the FY 2001 loan levels.
- VIII. Privatize the Rural Telephone Bank - RTB (-\$3 million). Salaries and expenses would be paid from the RTB liquidating account cash balances, and no new loans would be made (\$3 million reduction in BA). The RTB would be expected to be fully privatized in approximately nine years (which is the current schedule).

ATTACHMENT TO HHS PASSBACK SUMMARY

Attached for the Budget Review Board's review is a draft of the more detailed Passback Notes that we would provide the Department of Health and Human Services (HHS). It was suggested that we provide any additional materials to the BRB to get its concurrence before sending them to HHS.

These notes describe Administration initiatives and identify associated funding levels. They also detail the various reductions from the FY 2001 enacted level, such as elimination of funding for unrequested projects and one-time projects, and program funding reductions. Finally, the document requests information from HHS necessary to implement budget initiatives or improve program management.

FY 2002 BUDGET
DEPARTMENT OF HEALTH AND HUMAN SERVICES
 January 2001 Passback Notes

GENERAL NOTES

This document, and the information contained within or discussed at the Passback session, are to be shared only within HHS, and only with those individuals who need to know this information. None of this information should be shared outside of HHS. There is no exception.

The funding levels in the Passback reflect allocations of resources across the Federal Government to achieve the President's priorities. Aggregate funding levels from this passback will be reflected in the FY 2002 Budget Blueprint that will be submitted to the Congress in February. Any appeals to this Passback must be received no later than [date and time.] All appeals should be addressed to [names of PADs or DADs], and delivered to the Health Division and Education, Income Maintenance and Labor Division.

This Passback only addresses discretionary BA and Outlays, and associated policies. Decisions are not complete on mandatory spending proposals.

The following table displays aggregate discretionary funding for HHS activities:

HHS Discretionary BA and Outlays (FY 2000 - FY 2002) (\$ in millions)			
<u>HHS Totals</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
PL	\$46,056	\$53,438	\$
BA	\$43,901	\$52,746	\$
OL	\$40,650	\$45,949	\$

- ▶ **Funding Details** — In general, if FY 2002 funding for the program is not specified on the table or elsewhere in these notes, it is maintained at the FY 2001 enacted level. For programs/activities where the FY 2002 funding level is different from the FY 2001 level, that change is attributable to the following, detailed in the OPDIV sections:
 - **Presidential Initiatives** — This passback provides descriptions and funding levels for several Presidential initiatives.

- **Unrequested Items** — Most of the unrequested items funded in the FY 2001 Appropriation are not continued in FY 2002. Any exceptions are noted in the OPDIV sections that follow.
- **One-time Funding** — One time funding included in the FY 2001 Appropriation, such as funding for certain capital projects, is not continued in FY 2002.
- **Program Reductions** — Selected program reductions are detailed in the OPDIV sections.
- ▶ **Outyears** — Generally, FY 2003-2006 funding levels will be calculated automatically in the MAX database, except where Administrative initiatives include specific outyear policies. Policies underlying outyear calculations will be communicated at a later date.
- ▶ **Outlays** — Dollar appeals must identify changes in BA and outlays from the passback level. Any increase in total HHS outlays resulting from HHS' re-pricing of passback BA levels will be treated as appeal items. Therefore, the HHS appeal package should include HHS' estimates of outlays by OPDIV for FY 2001 through FY 2002. Backup outlay analysis tables should also be included.

FOOD AND DRUG ADMINISTRATION (FDA)

Resource Management Decisions

Within this level, the following will be included in the Budget:

- Completion of the Los Angeles laboratory. This should be addressed within the level included in Passback. OMB expects that FDA direct \$23 million to the completion of the Los Angeles laboratory in FY 2002.
- Authorized annual increases for PDUFA and MQSA. This level was based on the figures included in the FDA FY 2002 OMB Request for Information materials. OMB expects FDA and HHS to assist in providing necessary updates to this level.

HEATH RESOURCES AND SERVICES ADMINISTRATION (HRSA)

Resource Management Decisions

Initiatives

The FY 2002 Budget will include the following initiatives:

- **Consolidated Health Centers (CHC):** The FY 2002 CHC funding level is \$1.293 billion. The \$124 million increase over the FY 2001 level is the first investment of a multi-year CHC initiative to increase the number of community health center sites by 1,200 by FY 2006. The long-term goal of the initiative is to double the number of patients served in health centers. To meet these goals, OMB will work with HHS to target areas that are not served or that are underserved and will determine the funding allocation split of new grantees and grantee expansions to ensure that funding increases reach the areas of greatest need. OMB and HHS will meet by [insert date] to discuss the strategy of targeting the most underserved areas.
- **National Health Service Corps (NHSC):** Through legislative and regulatory reforms, the goal of the NHSC initiative is to reform the current system so the NHSC is better able to serve the neediest health professional shortage areas (HPSAs). OMB will meet with HHS before [insert date] to discuss a reauthorization strategy and a plan for revising the HPSA regulation. The NHSC reform goals include improving coordination with other programs, like the J-1 visa program, and improving the efficiency and effectiveness of NHSC placements. Specifically, the reauthorization will address those legislative issues approved by OMB last year, as well as changes to the scholarship tax policy; modifications to the present 40:60 ratio of scholarships to loan repayments; better data collection; and possible methods for improving retention.

Other Programs

The FY 2002 Budget phases out the following activities:

- **Community Access Program, Universal Newborn Hearing Screening, Emergency Medical Services for Children, Poison Control, and Trauma Care:** These activities may be more appropriately funded through the Maternal and Child Health (MCH) Block Grant, Consolidated Health Centers, Medicaid, and SCHIP (approximately \$130 billion in FY 2002).
- **Health Professions (excluding Children's Hospital GME):** The FY 2002 level of \$185.753 million maintains funding for the Nursing Workforce Development grants and the Health Professions Training for Diversity grants (Minority/Disadvantaged Programs and Student Assistance Programs) at the FY 2001 level.

The FY 2002 Budget does not continue FY 2001 unrequested projects funding within these activities:

- Maternal and Child Health Block Grant
- Rural Health Outreach Grants
- Rural Health Policy Development
- Office for the Advancement of Telehealth
- Program Management
- Hansen's Disease Center
- Health Care Facilities Construction
- State Planning Grants
- Denali Commission

The FY 2002 Budget maintains all other programs at the FY 2001 enacted level.

Other Policies

Ricky Ray Hemophilia Relief Fund: Due to the volume of petitions received thus far, the \$695 million provided for the Ricky Ray Hemophilia Relief Fund is sufficient to award eligible claimants. The FY 2002 Budget does not provide additional funding for the Ricky Ray Hemophilia Relief Fund.

Additional Information

National Health Service Corps: HHS will provide OMB with the implementation plan requested in the November 21, 2000 memo to Dennis Williams and George Strader by [insert date]. The implementation plan was to include the estimated spending levels for NHSC Loan Repayments, Scholarships, and the State Loan Repayment program. The implementation plan is to include a description of how HRSA will manage the program to ensure compliance with the statutory requirement that 40 percent of the NHSC recruitment funding goes to scholarships. Please provide a timeline for the grant awards, including the date grant applications will be available, the closing date for receiving grant applications, and the date applicants will be notified. Please explain the notification process for all applicants, including those who do not receive funding.

Program Management: Please provide a back-up table by [insert date], as requested in the aforementioned November 21st memo, detailing the number of FTEs and administrative expenses funded by program line, similar to the table provided to OMB by HHS in July, 2000. This table should include a column for the FY 2001 appropriation, as well as FYs 1998 through FY 2000. In addition, please provide a detail table of how HRSA's program management funding is allocated across HRSA. Please indicate how the FY 2001 appropriation increase for Program Management was allocated. This table should be prepared for inclusion in the FY 2002 HRSA Congressional Justification.

INDIAN HEALTH SERVICE (IHS)

Resource Management Decisions

Within the IHS total, the following allocations will be included in Budget:

- \$17.568 million is for Health Facilities Construction, for the completion of the Winnebago (NE) Hospital.
- Within the Hospitals and Clinics total, IHS is to continue its Resource and Patient Management Systems (RPMS) upgrades.

Other Policies

- **Passback:** While OMB staff recognize IHS' tribal consultation process on resource allocation and program management, the contents of this Passback should not be shared outside of HHS until decisions have been finalized.
- **Contract Support Costs:** IHS is expected to continue supporting tribal self-determination by: 1) funding as many contracts at the highest percentage possible and 2) reducing the disparity in funding levels among contractors for Contract Support Costs. IHS could fund more contracts and/or fund contracts at a higher percentage level by doing the following:
 - ▶ **No Inflationary increases for Contract Support Costs:** Since current services increases are not funded in the FY 2002 Budget, IHS' calculation for individual contracts should stay consistent with this broader funding policy.
 - ▶ **Amend the 80/20 Duplication Allocation to 75/25:** IHS is to amend the 80/20 duplication allocation to reflect the results of a recent workgroup study, which showed a combined Headquarters and Area Office split of 75/25. IHS is expected to provide an estimate of cost savings and an implementation plan on the 75/25 split by February 16th.
 - ▶ **Reallocate One-Time and Excess Contract Support Funds:** IHS should ensure that tribal contractors are not funded in excess of 100 percent of their Contract Support estimates. Please report any excess (e.g., indirect cost rate adjustments) and one-time (e.g., start up costs) Contract Support Cost funds in FY 2000 and explain how these funds are reallocated in FY 2001 by February 16th.
- **Accountability of All Available Federal Resources:** HHS has agreed to OMB's request to include Medicaid/Medicare resources in IHS' "Level of Care" analyses and the FY 2002 IHS GPRA Plan. OMB staff expect that these collections will be included in the FY 2001 "Level of Care" studies and in the Indian Health Care Improvement Fund

allocation, and expect IHS to submit an implementation plan by February 16th. OMB staff also expect IHS to discuss performance levels in the FY 2002 Performance Plan in the context of all IHS resources, including third party collections and tribal contracting/compacting funds. IHS is to submit a spending/implementation plan that reflects all of IHS' resources (e.g., discretionary annual appropriations, third party collections, mandatory diabetes funding, reimbursements), irrespective of funding source and where funding is going (e.g., IHS direct, tribal, urban programs) by February 16th.

- **Tribal Portion of Medicaid/Medicare Reimbursements:** To better account for the total Federal funding to Native Americans in health activities, IHS will update the FY 2001 tribal collections estimate of \$29 million to reflect recent rate increases for inclusion in the FY 2002 Congressional Justification. Please submit an implementation plan by February 16th, 2001, on how IHS will work with HCFA and tribes to derive better estimates.
- **Inclusion of the Children's Health Insurance Program Reimbursements:** IHS will reflect collections from the Children's Health Insurance Program (CHIP) in its program level totals.
- **Medicaid/Medicare Reimbursements:** IHS should update the current Medicaid/Medicare estimates to reflect increases associated with the recently approved new reimbursement rates for the FY 2002 Congressional Justification.

Additional Information

- **Diabetes Spending Plan:** IHS will provide a diabetes spending and implementation plan on how the \$100 million/year will be allocated among IHS and tribes by February 28th. The plan should outline how these funds will be distributed (e.g., continuation with existing formula, allocation to Area Offices) and used (e.g., create new prevention programs, supplement existing clinical programs) by IHS and tribes in FY 2001 and FY 2002.

CENTERS FOR DISEASE CONTROL AND PREVENTION (CDC)

Resource Management Decisions

- Unrequested Project Funding. The FY 2002 Budget does not contain \$213.283 million in CDC and ATSDR unrequested projects, including the \$125 million youth media campaign. CDC needs to manage this activity in FY 2001 in recognition that this specific Federal funding is non-recurring. CDC should develop a plan that gives priority to grantees that can leverage other resources, and that have a plan for sustaining these activities with other state, local and private funds beyond the CDC grant period. Please submit a draft implementation plan to OMB by XXX.

- Buildings and Facilities. The FY 2002 Buildings and Facilities funding level is \$78.6 million. This funding level includes funds for R&I at the FY 2001 Budget level of \$7.8 million, and funding for equipment for both Building 17, Phase 2 and Building 18.
- Chronic Disease Grants. The FY 2002 chronic disease funding level, adjusted for unrequested projects, is \$275.627 million through the phasing of chronic disease categorical grants towards a single chronic disease grant. In FY 2002, we expect CDC to fund no new categorical grants, and expect CDC to explain in its FY 2002 Congressional Justification how this change will be implemented.

Additional Information

- Immunizations. Please provide a plan explaining how CDC plans to manage its pneumococcal conjugate vaccine costs in FY 2001.
- Buildings and Facilities. Please provide an updated 10-year Master Plan and a table indicating, by project, what CDC plans to fund in FY 2001.

NATIONAL INSTITUTES OF HEALTH (NIH)

The FY 2000 Budget will includes an initiative to double NIH's FY 1998 budget of \$13.6 billion by FY 2003. As part of this initiative, NIH's FY 2002 budget will be \$23,222 million.

Resource Management Decisions

Within this level, the following allocations are included in Budget:

- Recurring costs of continuing research project grants and stipends for pre- and post-doctoral training grants will increase, on average, by 2.6 percent over FY 2001 levels. Average cost for competing RPGs will be at FY 2001 level.
- \$100 million for NCRR Extramural Construction
- NCI and NIDA will receive proportional increases no less than NIH overall increase
- NIH's initiative level includes funding for NIEHS for Superfund activities
- No funds are provided for the Foundation for NIH

Buildings and Facilities

- \$204.6 million to complete both Phase I and Phase II Construction of NNRC
- Up to \$100 million, but not less than \$80 million, for first part of construction for the new Animal Vivarium and \$5.6 million to complete construction of Northwest and NIEHS

child care centers. Advanced appropriation language for FY 2003 for remaining amount of the Vivarium will be included in FY 2002 Budget.

- Total B&F, including funding above, will be no more than \$400 million

Grants Management

Of the new research project grants in FY 2002, the total costs of no less than 20 percent will be funded fully with FY 2002 resources. NIH mechanism tables should reflect this policy, as well as the cost management policies outlined above.

Additional Information

- NIH should provide, by February 2, 2001, the GAO report and HHS GC opinion on permissibility of fully funding NIH grants that were referenced in NIH's December 2000 submission to OMB.

In addition, NIH should provide, by February 5, 2001, the following:

- IC and Mechanism tables reflecting FY 2002 Budget policies
- a cost estimate for Phase II of the NNRC and explain, if necessary, why this estimate is different from the original estimate of total project costs
- a detailed construction cost estimate and timeline for the Vivarium project based on the funding parameters above
- detailed breakout by project of non-construction B&F activities to be funded in the Budget

SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION (SAMHSA)

Funding Decisions

The FY 2002 funding level for SAMHSA will reflect the following:

- No funding is provided for Knowledge, Development and Application activities throughout SAMHSA. SAMHSA and NIH staff will work together to ensure that the most valuable efforts underway as part of SAMHSA's KDA grants are continued at NIH through NIDA, NIAAA and NIMH.

Initiative

- This Budget includes a drug treatment initiative designed to help close the treatment gap and increase the availability of drug treatment services. This will be accomplished by increasing funding for grants to provide drug treatment, and by ensuring that faith-based and community-based organizations are eligible to receive federal drug treatment funds. There will be an additional \$98 million over the FY 2001 funding level for SAMHSA to help close the treatment gap by increasing access to drug treatment services. The Substance Abuse Block Grant will be funded at \$1,725 million, and Targeted Treatment Capacity Expansion grants will be funded at \$199.710 million. These increases for SAMHSA are part of this broader initiative, which includes increased funding for the Office of Justice Programs' Residential Treatment grants.

By March __, 2002, please provide an update on faith-based grantees that are funded in FY 2001, as authorized in the Children's Health Act of 2000.

Other Policies

- Matching funds from grantees increase the rate of program continuation after finite grants such as TCE grants expire, and leverage additional resources for their intended purposes. However, TCE grants do not currently require such a match. SAMHSA should either institute a match for TCE grants, or make the inclusion of a match an item for preference in the grant application process, beginning with those TCE grants made in FY 2001.

Additional Information

- As part of SAMHSA's reauthorization in the Children's Health Act of 2000, a trade-off was made providing greater flexibility to states that receive block grant allocations, in return for increased accountability and data. Please provide OMB staff with an implementation plan for these new provisions by March 1, 2001.

HEALTH CARE FINANCING ADMINISTRATION (HCFA)

Resource Management Decisions

- HCFA should provide a spending plan for planned activities for the Nursing Home Initiative in FY 2002. OMB staff anticipate \$49 million for the nursing home initiative will be included in the Budget: \$6.1 million for Federal Administration, \$39.7 million for Survey and Certification and \$3 million for Nursing Home Transition Grants. HCFA should advise OMB if HCFA's planned levels are different from OMB's expectations.
- The overall level assumes a freeze at FY 2001 enacted levels and a discontinuation of unrequested items funded in FY 2001. These items include the Real Choice Systems Change Grants, one-time funding of \$10 million for tobacco-related activities, and increases for Nursing Home Transition Grants and Contractors.

Additional Information

- HCFA should provide OMB with funding levels and current spending plans for the four line items (e.g., Contractors, Survey and Certification, Research and Federal Administration) for HIPAA, BBA, BBRA and BIPA in FY 2000 through FY 2002.
- HCFA should provide OMB with a spending plan and update of current (FY 2001) and planned (FY 2002) activities for the Contractor Oversight Initiative and the National Medicare Education Campaign.
- HCFA should provide OMB with a spending plan for addressing financial systems upgrades at the FY 2002 Budget level. Please provide FY 2001 expenditures and FY 2002 estimated funding levels for Claims Processing, Managed Care System Redesign, Productivity Investments, Contractor Non-Renewals, Beneficiary and Provider Services and Participating Physicians Program. (OMB staff will request further discussions of HIGLAS through a separate process.)

Administration for Children and Families (ACF)

Resource Management Decisions

The FY 2002 Budget will include the following initiatives:

Initiatives

- **After School Certificates:** \$400 million in FY 2002 and in subsequent years for the creation of a new program within the Child Care and Development Block Grant, which will provide low-income parents with certificates to help defray the cost of their children's after-school programs. HHS and OMB will work together to ensure that the new program's design encourages the use of after-school care with a high-quality educational focus.
- **Strengthening Fatherhood:** \$64 million in FY 2002 (\$315 million through FY 2006) for a new responsible fatherhood initiative comprised of competitive grants to local organizations and projects of national significance.
- **Charity State Tax Credits:** Promote state tax credits for donations to state-designated charities addressing poverty by allowing TANF funds to be used to offset associated state revenue losses. TANF outlays would not increase before FY 2003. The ten year outlay stream, which will include funding above the baseline, assumes state maintenance of effort and match requirements. (*Mandatory, non-add*)
- **Ed/Training Vouchers for Older Foster Children:** \$60 million in FY 2002 and subsequent years through the Foster Care Independence Program specifically for education and training vouchers to youth who age out of foster care. These vouchers,

worth up to \$5,000 each, can be used for college tuition or vocational training.
(Mandatory, non-add)

- **Maternity Group Homes:** \$100 million in FY 2002 and subsequent years for pilot maternity group homes through a block grant to States. States will be authorized to make the funds available either as certificates to individuals, or as competitive grants to providers to purchase or operate a facility.
- **Mentoring Children of Prisoners:** \$200 million in FY 2002 and subsequent years to establish a new program within the Promoting Safe and Stable Families Program to make grants available through States to faith and community-based groups focused on improving the prospects of low-income children of prisoners.
- **Compassion Capital Fund:** \$200 million in FY 2002 and subsequent years to establish a public/private partnership that will provide start-up capital and operating funds to qualified charitable organizations that wish to expand or emulate model programs.
- **Best Practices:** \$22 million in FY 2002 and subsequent years to create a national fund for research on "best practices" among charitable organizations.

Other Funding Decisions

- **Community Services Discretionary Programs:** The FY 2002 budget eliminates funding for the National Youth Sports Program and the Community Food and Nutrition Program.
- The FY 2002 Budget does not assume the continuation of \$19 million in FY 2001 unrequested projects.

Additional Information

Temporary Assistance for Needy Families: The Department will work with OMB to develop a proposal to change the methodology for measuring performance outcomes for the TANF High Performance Bonus and Out-of-Wedlock Birth Reduction awards so that performance outcomes would need to be statistically significant in order for a State to receive an award. (*Pending approval*).

Administration on Aging (AoA)

Resource Management Decisions

The FY 2002 Budget does not assume the continuation of \$18 million in FY 2001 unrequested projects.

OFFICE OF THE SECRETARY (OS)

Funding Decisions

Within this level, the funding allocation for the components of the Nursing Home Initiative (NHI) in the Office of General Counsel and the Department Appeals Board is \$9.900 million in FY 2002.

No appropriations request is included in the FY 2002 Budget for the Policy Research function. As noted in the PHS Act Evaluation funding section of the passback, the Budget assumes that policy research activities are funded at \$8.000 million using the Department's one-percent evaluation authority.

Additional Information

The OS FY 2002 Budget level includes \$5.800 million for the Office of Human Research Protection.

OFFICE OF THE INSPECTOR GENERAL (OIG)

Funding Decisions

FY 2002 discretionary funding for the OIG is the same as the FY 2001 enacted level.

PUBLIC HEALTH SERVICES EMERGENCY FUND (PHSEF)

Funding Decisions

No program changes are assumed from the FY 2001 enacted level for PHSEF, apart from the adjustments for unrequested programs.

PHS ACT EVALUATION FUNDING

The following will be funded through the one-percent evaluation authority:

Agency for Health Care Quality and Research

- In the amount of \$269.943 million.

Centers for Disease Control and Prevention

- All Prevention Research activities, in the amount of \$15.953 million.
- The entire amount for NCHS, \$116.233 million.
- \$20 million of the total NIOSH program level.

Substance Abuse and Mental Health Services Administration

- \$40 million for National Data Collection efforts, such as the National Household Survey on Drug Abuse.

Assistant Secretary for Policy and Evaluation

- \$8 million for ASPE's Policy Research funding.

OMB staff estimate that the policies stated above will require the one percent evaluation authority to be extended to 1.8 percent through appropriations language. However, HHS should provide its own estimate of this percentage, including a backup analysis, by February ___, 2002.

HEALTHY COMMUNITIES INNOVATION FUND

The FY 2002 Budget will include a Healthy Communities Innovation Fund, which is a budget display of existing health activities that contribute to the goals of encouraging local community innovation by making funds available for demonstration/pilot projects targeted at specific health risks, increasing access, and improving healthcare quality.

The table below shows the activities that will be included in the Fund. Funding levels for the programs reflect that portion of larger budget activities which contributes to the goals of the Fund (with the exception of Healthy Start):

	(BA in Millions of Dollars)		
	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
<i>HRSA</i>			
Regional and National Significance (SPRANS) and Community and Integrated Service System	122	122	122
Healthy Start	90	90	90
Community/Migrant Health Centers, Integrated Service Delivery	6	9	9
<i>CDC</i>			
Race and Health Demonstration Grants	30	38	38
Chronic Disease Grants	62	83	83
<i>HCFA</i>			
Health Financing Research (estimated)	5	10	10

ADDENDUM
DEPARTMENT OF THE INTERIOR (DOI)

I. Arctic National Wildlife Refuge (ANWR) Revenue and Development Schedule Assumptions

- Since the last ANWR bonus estimates were completed in 1995 by the Interior Department, oil prices have increased and interest in building a natural gas pipeline infrastructure to market the natural gas produced on Alaska's North Slope has grown, making ANWR leases more valuable than assumed in Interior's 1995 estimate. OMB believes that it is reasonable to assume that the total bonus revenue from the first ANWR lease sale would be about \$2.4 billion -- to be shared 50/50 with the State of Alaska.
- OMB estimates that it would take at least three to four years to offer an oil and gas lease sale in ANWR, since ANWR would require leasing and production authorization from Congress, and given the length of time since the last ANWR Environmental Impact Statement (1987). Consequently, Passback assumes receipt of the first Federal ANWR bonus revenues to occur no later than FY 2004. The Interior Department would be directed to determine the most appropriate way to expedite holding a lease sale in ANWR.
- Interior will also be asked to review OMB's lease sale leasing and revenue schedule assumptions, and provide OMB with the Department's views on these items and the other ANWR items discussed in the Passback.

II. Fully Fund LWCF

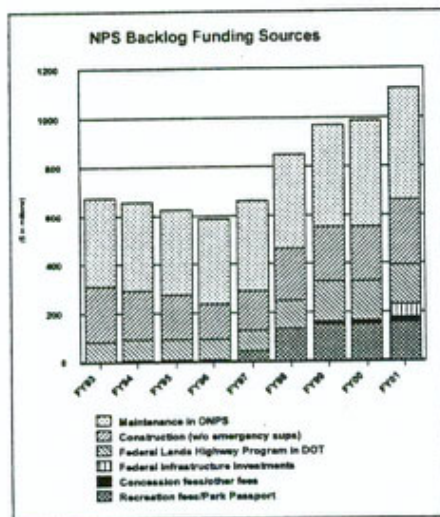
Passback meets the Administration's goal of fully funding the Land and Water Conservation Fund (LWCF) by making the following assumptions:

- Full funding (\$900M) will be reached by FY04 by phasing in increases over three years, split 50-50 in FY 04 between the Federal Government and the States.
- FY02 Budget will increase LWCF funding by \$136M, from \$544M in FY01 to \$680M in FY02.
- LWCF funding will increase to \$800M in FY03 and \$900M in FY04 for (the \$900m total comprises both DOI and the Forest Service in the Department of Agriculture.)
- Federal LWCF funding for land acquisition will be frozen at the FY01 level (\$450M). Agencies will be advised to give priority to acquiring inholdings, using easements that do not increase Federal ownership of fee simple title, and working with State and private interests where feasible to preserve endangered species habitat or achieve similar conservation goals.
- State LWCF grants for outdoor recreation and conservation purposes will be increased to \$230M in FY02, a 155% increase over FY01, and to \$450m in FY04.
- LWCF funding will remain within the BEA budget category, known as the Conservation Spending Category (CSC), which was just authorized in FY 2001. CSC subcategories will have to be adjusted, but no statutory changes are required.
- The CSC structure will be continued through FY03, but then re-evaluated along with the Highway Trust Fund and other budget cap issues.

- Total Passback funding for all accounts within the CSC is about \$1.5 billion in FY02, which is \$260M (-15 percent) below the CSC cap established for FY02. The remainder will roll over to FY03 and remain available for appropriation.

III. National Park Service (NPS) Deferred Maintenance Backlog

Funding for NPS facility maintenance and construction typically comes from five sources: (1) a



maintenance appropriations subaccount; (2) a construction account; (3) the DOI Facility Infrastructure Improvements account (started in FY01 under the CSC authorization); (4) the Transportation Department's Federal Lands Highway Program (park roads only); and (5) recreation and concession fee receipts. Together, these accounts provided about \$1.1 billion in FY 2001, nearly doubling the \$588 million provided in FY 1996.

Management Reforms. Before any additional funds are considered, Passback would instruct Interior and NPS to provide detailed information on the implementation of specific management reforms, including:

- Updated five-year priority lists for construction and maintenance projects;
- Budget justifications for proposed FY 2002 construction projects;
- Milestone schedule for completing condition assessments of park facilities;
- Milestone schedule for reports from the new NPS maintenance management system (MAXIMO);
- Prioritized list of all projects in the new NPS Property Management Information System (PMIS);
- Business-based action plan for overhauling the NPS concessions program and increasing returns from concessions contracts;
- Draft position description and timetable for recruiting a new Associate Director for Partnerships and Business Practices, which will provide focus for NPS partnership and business-type activities;
- List of construction projects (FY99 or earlier) with large unobligated balances; and
- Agreement to initiate no new park area studies in FY02 and include in all ongoing studies a full estimate of life-cycle operational costs that would result from a new or expanded park or NPS program.

Recreation Fees. Passback includes a four-year extension (FY03-06) of the NPS recreation fee demonstration program, which allows parks to use recreation fee receipts for park purposes. This authority would only be extended if Interior agrees to allocate at least 75 percent of receipts toward the backlog of deferred maintenance needs.

Federal Lands Highway Program (FLHP). Almost half of the 1996 backlog estimate was for park roads, which are funded through Transportation's Federal Land Highway Program (FLHP). In 1998, annual FLHP park roads funding was increased from \$84 million under ISTEA to \$165 million under TEA-21, but additional FLHP funds will be needed to eliminate the backlog.

Passback assumes that FLHP park road funding will more than double when TEA-21 is reauthorized in FY04, but specific funding amounts will be dependent upon overall decisions for the TEA-21 highway bill reauthorization.

IV. Eliminating the Bureau of Indian Affairs (BIA) School Maintenance Backlog, and Constructing Replacement Schools

The proposed five-year BIA school Maintenance Backlog and Replacement Initiative will eliminate BIA's \$802 million school renovation, repair, and maintenance backlog and complete replacement of the thirteen dilapidated schools on BIA's current priority list. Seven of the thirteen replacement schools were funded in FY 2001. BIA has identified an additional seven schools to be replaced. (The replacement costs of the seven "newly identified" schools are not included in the Initiative.)

The five-year initiative will be funded within Passback totals at \$1.1 billion; Passback reduces school construction funding modestly from the large FY 01 enacted level to ensure that BIA has the capacity to absorb the large FY01 appropriations efficiently.

Eliminating Maintenance Backlog

- Includes full funding to eliminate BIA's current \$802 million backlog of critical safety renovations, improvements and repairs by FY 2005.

Replacing BIA Dilapidated Schools

- \$137 million provided in FY 2001 to replace 7 schools (2 in AZ, 3 in NM, 1 in WA, 1 in MS).
- Includes full funding to replace 13 schools (\$275 million) and complete advance planning and design (\$26 million) for six remaining schools, including planning design for the seven newly identified schools.
- Replaces 3 schools in FY 2002: Polacca in AZ (\$14m), Holbrook Dormitory in AZ (\$13m), and Santa Fe Indian School in NM (\$40m).
- Replaces 3 schools in FY 2003: Ojibwa in ND (\$30m), Paschal Sherman School in WA (\$17m), and Kayenta Zina in AZ (\$24m).

V. Wildland Fire Management (Bureau of Land Management)

(budget authority, in millions of dollars)

	FY 1993	FY 2000	FY 2001	FY 2002 Proposed
Proposed Passback	282	491¹	977²	617

¹Includes \$200m in supplemental emergency appropriations.

²Includes \$200m in contingent emergency funds to repay accounts from which funds were borrowed to fight fires in 2000.

The Agriculture Department's Forest Service and Interior's Bureau of Land Management (BLM) have joint responsibility for managing the Federal wildland firefighting program. The Wildland Fire Management program comprises four major activities: 1) fire preparedness, 2) fire

suppression, 3) burned area rehabilitation, and 4) hazardous fuels reduction. The severe fires in 2000 resulted in the Clinton Administration proposing \$1.6 billion in additional funding, for a total of \$2.8 billion in FY 2001. Congress funded the program at \$2.9 billion, of which \$977 million was appropriated to BLM.

The proposed Passback level eliminates:

- \$200m in FY 2001 contingent emergency funds provided to repay balances from which funds were borrowed for the severe 2000 fire season.
- \$85m in FY 2001 emergency funds provided for restoration of areas burned during the 2000 season.
- \$22.1m in one-time capital costs for firefighting equipment (funded in FY01 under Fire Preparedness).
- \$10m in FY 2001 funding for new rural fire assistance program.
- An \$8.8m FY 2001 earmark to Northern Arizona University.
- \$10m for a rural fire assistance pilot program started in FY 2001.

The Passback level also reduces:

- Funding for Fire Preparedness by an additional \$17.6m. Funding at the proposed level still maintains a robust fire preparedness level for the agency at \$275m, or \$99m over FY 2000 enacted levels.
- The Passback reduces hazardous fuels reduction funding by \$15 million. BLM received a large increase in FY 2001 for fuels reduction that it will have difficulty spending this year. The proposed funding level of \$171m, though reduced somewhat from FY 2001 levels, still represents a substantial increase over the FY 2000 enacted level of \$49m. However, this reduction will be objectionable to certain Governors and members of Congress (particularly from Western states) who are looking for major increases in funding for this program (in part, as a way of increasing rural employment).

**ADDENDUM
ENVIRONMENTAL PROTECTION AGENCY**

I. Operating Programs

- State programmatic grants are funded at the enacted level of \$1,006 million, plus an increase of \$25 million from FY 2001 to fund state grants for the devolution of enforcement activities. OMB and EPA will work out the mechanism for providing such grants to states and ensuring that the additional funds can only be used for enforcement activities.
- The pesticide registration fee is scheduled to resume on October 1, 2001 and is expected to collect \$25 million in the first year, which will be deposited in the general fund. Prior to the beginning of FY 2002, EPA should put a notice in the Federal Register notifying registrants that the fees will resume and updating the rates to reflect the increase in the General Schedule pay rates since the registration fee rule was suspended.
- The tolerance fee rule should be issued on October 1, 2001 and become effective no later than March 31, 2002. It is expected that the rule will collect \$51 million in fees in FY 2002, with the funds deposited in the Reregistration and Expedited Processing Revolving Fund and available for expenditure on tolerance assessment activities.
- Pesticide reregistration maintenance fees will expire on September 30, 2001, resulting in a shortfall in funding for reregistration activities in FY 2002. However, funding appropriated in FY 2001 for tolerance assessment activities can be redirected to reregistration activities in FY 2002, as much of the tolerance assessment program can and should be funded from tolerance fee collections in FY 2002.

II. Water Infrastructure

- Decisions on the Clean Water State Revolving Funds are still pending.
- The Drinking Water State Revolving Fund is funded at \$823 million, the 2001 enacted level.
- U.S./Mexico Border environmental infrastructure is funded at the enacted level of \$75 million.
- Grants for environmental infrastructure for Alaska Native Villages are funded at the enacted level of \$35 million.

III. Superfund Reauthorization

- Superfund is funded at the enacted level of \$1,267 million, with a general fund payment at the enacted level of \$634 million. This level of payment is sufficient to allow the appropriation to be funded through the Trust Fund without any changes in existing law.

Funding for the Agency of Toxic Substances and Disease Registry (ATSDR) and National Institute of Environmental Health Science (NIEHS) will be funded through HHS.

IV. Management

- Federal Facility Compliance Review. EPA (OECA and the program offices) should work with OMB to evaluate the process for ensuring Federal Facility compliance with environmental laws. The evaluation should include a review of the application of the BEN Model, assessment of fines and penalties, and listing of Federal facilities on the National Priority List (NPL).