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NOMINATION OF STEPHEN S. McMILLIN

HEARING

BEFORE THE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

ON THE

NOMINATION OF STEPHEN S. McMILLIN TO BE DEPUTY DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET

JULY 13, 2006

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CONTENTS

	Page
Opening statements:	
Senator Collins	1
Senator Bennett	7
Prepared statements:	
Senator Lieberman	11
Senator Stevens	12

WITNESS

THURSDAY, JULY 13, 2006

Stephen S. McMillin to be Deputy Director, Office of Management and Budget:	
Testimony	3
Prepared statement	13
Biographical and professional information	15
Responses to pre-hearing questions	20
Letter from U.S. Office of Government Ethics	49
Responses to post-hearing questions from Senator Collins	50
Responses to post-hearing questions from Senator Lieberman	54

NOMINATION OF STEPHEN S. MCMILLIN

THURSDAY, JULY 13, 2006

U.S. SENATE,
COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 4:18 p.m., in room 342, Dirksen Senate Office Building, Hon. Susan M. Collins, Chairman of the Committee, presiding.

Present: Senators Collins and Bennett.

OPENING STATEMENT OF CHAIRMAN COLLINS

Chairman COLLINS. The Committee will come to order.

First, let me apologize to the nominee and those present today for the long delay in convening this hearing. Just as we were about to begin the hearing, the Senate began a series of roll call votes. The fourth one is underway right now and that is the cause of the delay. But rather than postpone the hearing to next week, I thought it was important that we try to complete it today, so my apologies to the nominee.

Today, the Committee will consider the nomination of Steve McMillin to be the Deputy Director of the Office of Management and Budget (OMB). A key mission of the OMB is to assist the President in preparing the Federal budget and to oversee its execution by Executive Branch agencies. In carrying out this mission, OMB evaluates the effectiveness of the Agency programs, assesses competing funding demands, and sets priorities. The Deputy Director plays a central role in carrying out these missions.

This is a demanding job at any time. It is especially demanding in a time of spending imperatives and revenue constraints. Despite the strong growth in Federal revenues this year, the Federal budget remains under considerable pressure. Some of this pressure can be attributed to the war on terrorism and to unprecedented natural disasters, like Hurricane Katrina. But even without these factors, our Nation faces an ongoing structural deficit that will become an increasing challenge in the coming years.

While the Administration's latest estimates are that the Federal deficit will decline to $127 billion by the year 2011, total debt is expected to increase to more than $11 trillion that same year. As alarming as this figure is, this level of debt will be reached even before the retirement of much of the baby-boom generation, which will present our Nation with its most serious challenge yet in funding Social Security, Medicare, and other entitlement programs.

Our Nation's economy has always shown a remarkable ability to absorb shocks and to overcome even the gravest of challenges. The growth we have seen since the attacks on our country on September 11 is a striking demonstration of this resiliency. That attack deepened the economic downturn we were experiencing at the time, but since the recovery began, our economy has added 5.3 million jobs, 2 million in the past year alone.

The strong growth we are now experiencing is yet another sign of the fundamental health of our economy. Earlier this week, the Administration predicted that by the end of 2006, the GDP will expand by 3.5 percent, above the historical average, and unemployment will fall to 4.7 percent, below the historical average. This growth has boosted tax revenues by nearly $250 billion above last year's levels, helping to produce a deficit considerably smaller than the Administration projected just 6 months ago—good news indeed.

While this is excellent news, our long-term forecasts remain clouded by the implications of the retirement of the baby-boom generation. We must be mindful that the slightest slowdown in our economic growth rate can present us with an even greater budget challenge than we are predicting today.

Given all the extraordinary budget issues we face, never before has it been more important to have experienced, competent, dedicated leadership at OMB. OMB has able leaders in Rob Portman and Clay Johnson. It is important that this Deputy Director position is filled with a similarly strong candidate.

Our nominee, I am pleased to say, appears to have the experience and qualifications to be an effective deputy. Since November 2005, Steve McMillin has served as the Deputy Assistant to the President and Advisor to the Chief of Staff. Before joining the White House, he served as Associate Director for General Government Programs for OMB. Prior to joining the Administration, Mr. McMillin served on the staff of the Senate Committee on Banking, Housing, and Urban Affairs for 3 years and on the staff of Senator Phil Gramm for 9 years.

I should add that Senator Gramm called me personally to indicate his support for this nominee, describing him as "brilliant and principled," high praise, indeed.

I welcome Mr. McMillin to the Committee, and I look forward to his testimony and answers to the questions today.

I know that Senator Hutchison hoped to be here to introduce the nominee. Because of the unexpected votes this afternoon, she is unable to join us at this time, but her endorsement does carry great weight with the Committee.

Mr. McMillin has filed the responses to a biographical and financial questionnaire, answered pre-hearing questions submitted by the Committee, and has had his financial statements reviewed by the Office of Government Ethics.

Without objection, this information will be made part of the hearing record, with the exception of the financial data, which are on file and available for public inspection in the Committee's offices.

Our Committee rules require that all witnesses at nomination hearings give their testimony under oath, so Mr. McMillin, if you will please stand and raise your right hand so I can administer the oath. Do you swear that the testimony you are about to give will

be the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. MCMILLIN. I do.

Chairman COLLINS. Please be seated.

Mr. McMillin, it looks to me as if you have family members present, and I would invite you to introduce them to the Committee at this time.

TESTIMONY OF STEPHEN S. McMILLIN,[1] TO BE DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. MCMILLIN. Thank you, Madam Chairman. First, my wife, Dawn McMillin.

Chairman COLLINS. Hello.

Mr. MCMILLIN. And then our two sons, Spencer and Christian.

Chairman COLLINS. We want to particularly thank the boys for their patience. I am sure it was hard waiting almost 2 hours to see your father, but this is a very important position that the President has selected him for, so that is a pretty big deal, and we are glad to have you here. We welcome your wife, as well.

Mr. MCMILLIN. We made quite a few paper airplanes downstairs. [Laughter.]

Chairman COLLINS. Mr. McMillin, I would invite you to proceed with your statement.

Mr. MCMILLIN. Thank you, Madam Chairman, and thank you for recognizing my family. Obviously, those of us in public service couldn't do the things we do without their help, love, and support. I am forever in their debt for all they have done for me in the past and all they will do for me during my time at OMB.

I am also grateful that Senator Hutchison was willing to come and introduce me before the Committee. Unfortunately, she couldn't make it, but I spent enough time here in the Senate to know that predicting votes and keeping a schedule in the afternoon is sometimes a bit of a challenge, but I thank you for pressing ahead with the hearing nevertheless.

Chairman Collins, I want to thank you, Senator Lieberman, who also could not attend, and the Members of the Committee for the opportunity to appear today. If I am confirmed as Deputy Director of OMB, I will be assisting Director Portman in dealing with many challenging issues facing the Administration and the Congress. OMB has a unique role in American Government, with responsibilities that cover a broad range of policy, fiscal, and management issues. OMB's most visible role is the preparation of the President's annual budget request, but throughout the year, OMB supports the President and his Administration in a variety of ways. If confirmed, I will work closely with Members of Congress and this Committee from both parties to ensure that we are addressing the tough issues on behalf of the American people and to ensure that their tax dollars are spent wisely.

As you are aware, Madam Chairman, I began my government service here in the Senate many years ago, serving as an aide to Senator Phil Gramm and to the Senate Banking Committee. In my nearly 12 years of service, I developed a deep love and respect for

[1] The prepared statement of Mr. McMillin appears in the Appendix on page 13.

the history, traditions, and principles embodied in this great institution. In the Senate, everyone's opinion counts. Everyone has a right to be heard, sometimes to be heard at great length. And everyone has a right to put forward their ideas and have them considered by their colleagues. This is a reflection of the fact that no one person, Administration, Committee, or party has a monopoly on wisdom or good ideas, and it is through dialogue and working together that truly great achievements are often possible.

I know this Committee is particularly concerned with many of the management issues faced by OMB. In my view, good management and responsible budgeting are inseparable. When I first joined OMB in late 2001 as an Associate Director, I was struck by the strong concern and emphasis placed on management issues throughout the Administration. If confirmed, I look forward to working with the Members of this Committee to ensure continued progress on the President's management agenda and the execution of OMB's important management responsibilities.

Madam Chairman, you made reference to the new figures released earlier this week through the mid-session review, some of the strong economic performance we have seen lately. I won't repeat all of those facts. I will observe, as you have, that to make continued progress on this deficit, we need to continue the policies that helped create the strong economic performance and we need to continue our combined efforts to restrain spending. Working together, Congress and the President have reduced the growth of non-discretionary spending every year the President has been in office, and last year, Congress passed bills that actually cut this type of spending. And earlier this year, Congress passed the first spending reconciliation bill in nearly a decade.

In the near term, budget process reforms and tools like the line-item veto can help us control spending growth, eliminate wasteful spending items, and improve accountability. I am encouraged that the House has already passed the line-item veto with a strong bipartisan vote, and that the Senate is actively engaged in considering budget process reform, including the line-item veto.

In the long term, as you mentioned, our major entitlement programs are projected to grow faster than inflation, faster than GDP, and faster than our economy's ability to sustain them. Millions of our citizens rely on these important programs, and we have a responsibility to preserve them for future generations. To do so will require sound and innovative reforms, and if confirmed, I would welcome your input, that of your colleagues, and your advice on how we can best achieve them.

Again, I appreciate the Committee's consideration of my nomination. I look forward to answering any questions you may have.

Chairman COLLINS. Thank you for your statement.

I am going to begin my questioning this afternoon with three standard questions that we ask of all nominees. First, is there anything you are aware of in your background which might present a conflict of interest with the duties of the office for which you have been nominated?

Mr. MCMILLIN. Madam Chairman, as I earlier informed the Committee in writing, due to my wife's employment with American Airlines, if confirmed, I would recuse myself as appropriate from

matters dealing with American. Other than that, there are no such issues.

Chairman COLLINS. Thank you. Second, do you know of anything, personal or otherwise, that would in any way prevent you from fully and honorably discharging the responsibilities of this office?

Mr. MCMILLIN. No.

Chairman COLLINS. Third, do you agree without reservation to respond to any reasonable summons to appear and testify before any duly constituted Committee of Congress if you are confirmed?

Mr. MCMILLIN. Yes.

Chairman COLLINS. I would now like to turn to some policy issues. I have had the opportunity to meet with you previously. I will try not to duplicate all of those questions.

I want to talk to you this afternoon about the role that OMB could play to help cut down on the incidence of waste, fraud, and abuse in the Federal Government. This Committee has held many oversight hearings that have documented hundreds of millions of dollars—in the case of Hurricane Katrina, over $2 billion in wasted funds, whether the waste was due to outright fraud or whether it was poor contracting decisions that caused the taxpayers to pay more than they should for goods and services.

What do you see as OMB's role in helping to curb the wasteful spending of taxpayer dollars?

Mr. MCMILLIN. Madam Chairman, I believe one of OMB's most critical functions is to be the watchdog of the Federal Government on those types of questions. I believe that one of the best things OMB can do in leading efforts to deal with waste, fraud, and abuse is to ensure that government-wide, we improve the quality and capability of the financial control systems we have at our agencies. Many times, and I think Hurricane Katrina is an excellent example, the relative lack of sophistication of those systems has made it difficult for CFOs and those responsible in the agencies to get a good feel for where the dollars are going and whether they are being obligated in an appropriate fashion until it is too late.

Second, the Deputy Director of Management plays a critical role as the head of the IG community across the agencies. It is very easy, I have learned, in the Executive Branch to come to a view that an IG perhaps is not part of the team—someone who is perhaps antagonistic to the agency.

I think it is a mistake to fall into that kind of trap. If you are going to have an independent IG community, clearly, they are going to need to be able to speak their minds freely on occasion, criticize the leadership of our agencies. We need to recognize that they have important duties to perform. They have a perspective and expertise that the folks charged with running the programs themselves don't have. I have seen a number of examples in various agencies where the IG has been seen as a resource who can help the agency perform better, not just in terms of financial management and dealing with waste, fraud, and abuse, but also in exploring the effectiveness of programs and making sure that they can achieve better results on behalf of the American people.

Chairman COLLINS. What do you see as the relationship between the Deputy Director and the Deputy Director for Management? Do

you see your role as being exclusively on the budget side of OMB or also as having responsibility for some of the management of the Executive Branch—management policies, I should say?

Mr. MCMILLIN. I view the role of the Deputy Director as a true deputy for the entire agency. That means that, if confirmed, I would need to be attuned to not just the budget and policy-related issues, but also the entire scope of OMB's management responsibilities and how those are integrated with the budget and policy side. Obviously, the Congress in creating the Deputy Director for Management position wanted to have a senior person dedicated to those questions full time, and certainly Clay Johnson is a very effective and capable Deputy Director for Management, and like any manager in any organization, I think Director Portman and I, if confirmed, will continue to look to Mr. Johnson to provide the leadership in that area, but certainly not to simply cede responsibility or just leave him off unattended to the side. The issues that Clay is responsible for are very much the responsibility of the Deputy Director and the Director, as well.

Chairman COLLINS. Every 2 years, the Government Accountability Office issues a list of programs or systems in the Federal Government that it views as being at high risk. By high risk, the GAO means that these programs or systems are either at high risk of failing or they are excessively vulnerable to waste, fraud, and abuse. Some of the systems, and programs have been on the list for a decade. What do you think OMB's role ought to be when it comes to improving the performance and reducing the vulnerability of programs or systems on the high-risk list?

Mr. MCMILLIN. I think there is an opportunity for OMB to form a partnership of sorts with the GAO on addressing programs on the high-risk list. GAO is another good example of an agency with a very important job to do, where it is important that we not view criticism as antagonism, but rather an opportunity to understand the challenges we face in some of these difficult programs and find some new ideas for solutions.

I personally would hate to see an Executive Branch that was so timid that we didn't take on a few high-risk projects from time to time. It is certainly helpful to ensure that both GAO and OMB provide a heightened level of focus on the implementation of those programs and systems and it requires the input of a variety of things that OMB can bring to the table. In some cases, that means using the statutory management offices as a resource to share best practices with some of the agencies that are working on these systems. In some cases, it means the budget side of the House has got to enforce some discipline when the planning or execution of a program is not proceeding as it should be.

One of the worst things we can do, having identified a high-risk program, is to basically continue pouring money into it, hoping that will solve the problems when we may or may not have the right plans and management oversight in place to make sure that they are a success.

Chairman COLLINS. I would really encourage you to tackle that list. It is unacceptable to have programs and systems listed year after year on the high-risk list, to have GAO point to these programs as being at risk of failure or excessively vulnerable to waste,

fraud, and abuse, and yet no one does anything to improve the management of these programs. I think that is a really obvious list to start with. This Committee has held hearings on some of the programs to try to get the attention of agency leadership. But I really believe OMB could play a critical role in helping us to get programs off the high-risk list due to improved management.

Mr. MCMILLIN. That is excellent advice.

Chairman COLLINS. Senator Bennett.

OPENING STATEMENT OF SENATOR BENNETT

Senator BENNETT. Thank you very much, Madam Chairman. I thought we would have a bigger attendance after the vote. I came down before the vote and found out it was postponed.

I am old enough, Mr. McMillin, to remember when it was the Bureau of the Budget, and it was during the Nixon Administration that it got renamed the Office of Management and Budget, but the "M" has been honored in the breach and the "B" has continued to dominate. The change of name hasn't changed the function nearly as much as perhaps it should.

I simply add my voice to that of the Chairman to say the more attention we can pay to the management side, the "M" in OMB, and make that name change a reality—now I am overstating the case, but we always do that in Congress. We are in the business of overstating. I do recognize that there are a lot of good things that have gone on on the management side, but I think the Chairman's emphasis on focusing on management and not just the creation of a budget is very well placed. I would encourage you in your position to do what you can to look at the management challenges.

I have been a supporter of the idea that we have a 2-year budget, which would mean you would have more time. It would probably mean we would have a few more supplementals, but it would presumably mean you would have more time in a 2-year congressional cycle to focus on some of these management issues rather than being constantly consumed with having to put together next year's budget.

I congratulate you on your willingness to serve. These are not glamorous kinds of positions, but they are absolutely vital to the function of government, and we are grateful to you for your willingness to accept this assignment.

Mr. MCMILLIN. Thank you, Senator.

Senator BENNETT. Thank you.

Chairman COLLINS. Thank you, Senator.

As Senator Bennett was talking, I was thinking about how we often are penny-wise and pound-foolish in our approach to the budget. There are programs that would benefit from a greater upfront investment that would end up saving you a great deal of money in the long run. I want to give you three examples.

One we discussed during your courtesy call and that is the Low-Income Heating Assistance Program, known as LIHEAP. If we were to fund this program so that the money were available in the Northeast in the summer months, you would be able to stretch the dollars further because the price of home heating oil is less in the summer months than at the height of the winter. Yet this funding

is usually not released until there is an emergency situation at the height of the winter when prices are the highest.

The second example is the Deepwater program, an ambitious and much-needed recapitalization of the Coast Guard's assets. The Coast Guard has one of the oldest fleets in the world. Its cutters are aging. Its helicopters and planes are frequently down for maintenance. There is a commitment by the Administration to rebuild its assets, but it is a commitment that the Administration has proposed lengthening over a 20-year period. I have had studies done that indicate that if you were to recapitalize the Coast Guard over a 10-year period instead, not only would you give the Coast Guard the assets it desperately needs much sooner, but you would also literally save billions of dollars.

The third example is in naval shipbuilding. In this case, we have uneconomical production rates. You see this with other defense systems, as well. There isn't a question of not needing more ships, but for budget reasons, funding plans are stretched out, and as a result, we are underfunding shipbuilding. The end result is that the shipbuilding yards cannot plan their work effectively—and the Federal Government ends up paying far more per ship than it would if we had a more economical production line.

What can we do to encourage a more long-term view to budgeting, realizing that in some cases, an investment up front can save you literally billions of dollars later?

Mr. MCMILLIN. Well, Madam Chairman, it often strikes me that as we are budgeting, especially in the discretionary side of the account, there often is a tendency to basically look at last year's level and do percentage adjustments to it. As you extend that sort of mathematical parsing of one big top-line allocation down into individual programs and accounts, it often can be hard for managers of a relatively small program to see how significant capital investments are possible, much less advisable, when they look at some of their near-term operational requirements.

I think it is up to folks like OMB and the senior levels of agencies—you look at DOD in particular with an annual base budget of well over $400 billion now—and it should be possible as we are doing our long-term planning in the defense area and some other areas, as well, to be able to step back and say that this particular capital investment is in the Nation's interest. It is appropriate for us to deviate from the everybody gets 3 percent, everybody gets 1 percent type of approach that I believe budgeting can sometimes slip into. So identifying those opportunities up front, ensuring consistent top-level focus throughout OMB, and then working with the senior levels at the agencies, I think that is probably our best opportunity to prioritize those types of investments.

Chairman COLLINS. You talked in your opening statement about the need for a line-item veto to give the President additional tools to control spending. Some of us are concerned about altering the balance of power, if you will, between the Executive and the Legislative Branches. What is your response to that concern?

Mr. MCMILLIN. Well, Senator, the version of the line-item veto proposed by the President and under consideration in the Congress now is significantly different from the one given to President Clinton back in the 1990s. That version exercised by President Clinton

did not require any further review by the Legislative Branch. It was simply a unilateral act by the Executive Branch.

In this case, the line-item veto we are talking about would allow the President to send up a series of rescission proposals, which the Congress would consider under expedited procedures. While there is some diminution of the right of any individual member to amend, delay, or block that particular legislation, it is not a unique situation. There are a variety of situations, whether the Congressional Review Act or Trade Promotion Authority, things of that nature, where Congress has chosen to enact expedited procedures for the consideration of important matters. And so in this case, there is an opportunity for Congress to speak after the President has made a proposal and I think it represents an appropriate respect for Congress' prerogatives.

Chairman COLLINS. Senator Bennett.

Senator BENNETT. Thank you, Madam Chairman.

I supported the line-item veto that we gave to President Clinton, and he disillusioned me really fast. When I saw how it was used, I stood up on the floor of the Senate and said, "I hereby withdraw my support." I was delighted when the Supreme Court struck it down. So I am willing to look at the details of this. I won't say automatically no, but I remember the statement of Pat Moynihan, who probably served more Presidents than any Member of the Senate in history, starting with John F. Kennedy, Lyndon Johnson and Richard Nixon, Gerald Ford, and then he came to the Senate. He said if Lyndon Johnson had had the line-item veto, he would have been an emperor, and we don't want to run that risk.

I will look at the details of what you are presenting, but I think it is appropriate that you raise that, Madam Chairman.

Chairman COLLINS. Thank you, Senator.

Mr. McMillin, your family has had to wait a very long time today so I am going to ask you just one more question so that they can get home before it gets too late, and then I will be submitting the remainder of my questions for you to answer for the record.

We have talked about the line-item veto as being a budget tool. Another budget tool that Congress had at one point was what is known as PAYGO rules, the pay-as-you-go rules. Those are budget enforcement policies. I know you are familiar with them from your time in the Senate. I also asked you a pre-hearing question about this.

With respect to the application of PAYGO rules, I have consistently supported rules that would apply equally to new tax cuts and to new entitlement spending. The Administration, however, has a different view and contends that PAYGO rules should not apply to the tax side of the ledger. In your answers to the questions submitted to you prior to the hearing, you indicated agreement with the Administration's position.

If we are truly serious about regaining control of the budget, why wouldn't we want to apply PAYGO rules to both sides of the ledger, both the spending and the revenue side?

Mr. MCMILLIN. Well, Madam Chairman, as I understand the facts that informed the Administration's position on this, we are in a situation where revenues are now and are projected to be going forward at approximately the historical level as a share of GDP, a

little over 18 percent. As we look at the long-term projections going forward, we see that spending, in particular driven by entitlement growth, is projected to grow substantially as a share of the economy. In that sense, I think it is appropriate perhaps to apply further scrutiny on the spending side, but I agree with you, we should not ignore the revenue side of the equation.

In my opinion, Section 311 of the Budget Act provides the Congress a good opportunity for exercising that kind of discipline. In the budget resolution, the Congress, a majority of the House and the Senate, can agree upon an aggregate level of revenues that legislation should not cause the Federal Government to go below. That decision can be made in the context of an overall budget so that we can decide what type of revenues we need consistent with our fiscal goals. Then as individual legislation is proposed, Section 311 imposes that super-majority hurdle on proposals that would take our revenue below that level.

So there is certainly a need for discipline on both sides of the equation. I think some of the reluctance on PAYGO also derives from the baseline rules, which in some cases treat taxes in particular, the 2001–2003 tax cuts that the President proposed and the Congress enacted, the baseline treats those a little bit differently than they do some spending programs. Many spending programs are assumed in the baseline to go on forever even if that is not current law. So then the question becomes in enforcing a PAYGO requirement, proposals need to be offset compared to what? So that is the basis of my view there.

Chairman COLLINS. Thank you. I want to thank you for appearing before the Committee today and for your patience and that of your family. I will be submitting additional questions for the record. I don't think that the absence of my colleagues indicates a lack of interest in your nomination but rather many competing demands this afternoon. I do expect that we may have some other questions submitted for the record. Without objection, the record will be kept open until 5 p.m. tomorrow for the submission of any written questions or statements for the record.

Again, Mr. McMillin, I want to thank you for being here today, for your willingness to serve. It does require a great sacrifice on the part of your family, so I want to thank them, as well.

This hearing is now adjourned.

[Whereupon, at 4:57 p.m., the Committee was adjourned.]

APPENDIX

PREPARED STATEMENT OF SENATOR LIEBERMAN

Thank you, Madam Chairman, and welcome, Mr. McMillin. I congratulate you on your nomination as Deputy Director of the Office of Management and Budget.

Your previous experience at OMB as Associate Director for General Government Programs from 2001 to 2005 should help prepare you for your new post.

Before his confirmation as head of OMB, your new boss Rob Portman promised "to work closely with Congress on a bipartisan basis" as we try to get our exploding Federal deficit under control.

As Deputy Director of OMB, I would hold you to the same promise.

President Bush has said: "A budget is more than a collection of numbers. A budget is a reflection of a Nation's priorities, its needs and its promise."

I agree, but would add: A budget must also be about *delivering* on those priorities . . . those needs . . . those promises, or else it really is just a collection of numbers without meaning or mission.

Your job will be to assist Director Portman in helping the President prepare the budget and execute it across 14 cabinet agencies and more than 100 executive agencies, boards, and commissions.

You will be part of the team that recommends where every dollar of our budget is spent, how each agency's programs are managed, and that oversees the review of vital rules for public health and safety, worker safety, and environmental protection.

I have concerns about how these responsibilities have been carried out for the last 5 years.

Let's start with the budget. If we are going to get our fiscal house in order, everything has to be on the table, not just entitlement programs and discretionary spending, but our tax policies as well.

We recently passed a $70 billion tax package that showers tax breaks on the Nation's wealthiest, who don't need the help, the oil industry, which is enjoying record profits, and increases the already enormous national debt, placing a hidden tax on our children and grandchildren.

This also leads to a lack of resources to adequately fund vital programs most of us agree are essential to our Nation's priorities, needs, and promise.

For example, I supported No Child Left Behind because I want to ensure a high-quality education for all of our students, regardless of income. I believed it was important to try new ideas. But these ideas demanded additional resources.

We have not delivered those resources. Under the President's budget, the NCLB shortfall will be $15.4 billion next year. As a result, the Title I budgets of most school districts across the country will be frozen or cut.

In Connecticut, 122 out of 166 school districts will see Title I cuts this year. That is wrong.

I fear we are about to repeat the underfunding mistake of No Child Left Behind with the President's recently announced "National Strategy for Pandemic Influenza Implementation Plan." That plan relies heavily on States and localities to carry the burden. But experts tell me these State and local programs are significantly underfunded.

Second, Homeland Security also needs more help. Yet, whenever I challenged the Administration's budget for homeland security, officials countered by citing how much spending has grown in recent years.

Of course it has grown! We were caught unprepared on September 11, 2001. The question is not whether we are spending more, but whether we are spending *enough* to meet the government's fundamental obligation to protect its citizens.

Too often, the answer is no. We are shortchanging port security, interoperable communications, bioterror preparedness, and more.

And as we have learned all too painfully with Hurricane Katrina, we are short-changing preparedness for catastrophic natural disasters, as well as terrorist attacks.

Finally, on an important matter of budget process, we are now more than 3 years into the wars in Iraq and Afghanistan.

There is no good reason why the costs of these engagements are still being handled in separate supplemental budget requests.

This approach harms us in two ways.

First, it hides the true costs of our defense by putting a large part of the costs off budget. That reduces the scrutiny and discipline our defense budgeting needs and adds to the bill our children must pay.

Second, it also encourages our military to put core programs into the supplemental. When—not if—the supplementals come to an end, those programs will be unsustainable.

I do not agree that the costs of Iraq and Afghanistan are unknowable and that we can't budget for them.

I do agree that a budget is a statement of our priorities, needs, and promises. But without proper funding in the beginning—and good execution afterward—it is just numbers with no meaning or mission.

And that means it fails the American people.

Thank you, Madam Chairman.

PREPARED STATEMENT OF SENATOR STEVENS

Mr. McMillin, in FY 2003 and FY 2005, Congress—at my request—appropriated a total of $5 million to the Tribal Partnership Program. It was our intention that this funding would go to the Alaska Village Erosion Tribal Partnership. This partnership was set up to assist the U.S. Army Corps of Engineers in prioritizing the needs of 184 Alaska villages that have been severely damaged by coastal erosion. This joint effort—which is known as the erosion baseline study—is an essential part of our efforts to address the erosion crisis in our Alaska villages.

In June, I learned that the Corps of Engineers had reprogrammed $2.168 million of this funding to projects outside of the Alaska District. I sent a letter to Secretary Woodley, Assistant Secretary for Public Works at the U.S. Department of the Army. I told Secretary Woodley that I believe it is improper for the Corps to take funding away from this vital project. I also told him it is unacceptable to continually expect me to restore funding to address this urgent situation. Reprogramming is an important tool which the Corps can use to move projects forward. However, in this case, their decision to reprogram has had the opposite effect—it has ground the erosion baseline study of our villages to a halt.

One hundred eighty four of our State's villages have been seriously impacted by coastal erosion and flooding. Four villages are in imminent danger and must relocate. The Corps and the Administration are well aware of this dire situation. Yet, the President's budget this year did not include any funding to address coastal erosion in our State.

The coastal erosion crisis in our villages warrants support from OMB. The citizens of rural Alaska deserve the same attention and concern as those impacted by Hurricanes Katrina and Rita. When entire communities are forced to relocate due to erosion, it should be a funding priority.

I intend to oppose this nomination as a protest against OMB. OMB must recognize the plight of our villages, which have been severely damaged by storms and some of which have been declared national disaster areas by the President. It is my hope that by opposing this nomination, OMB will finally take the erosion crisis in our villages seriously and provide the funding needed.

Committee on Homeland Security and Governmental Affairs
Statement of Stephen S. McMillin
Nominee for Deputy Director of the Office of Management and Budget

I want to thank Chairman Collins, Senator Lieberman, and the members and staff of the committee for the opportunity to appear before you as the President's nominee to be Deputy Director of the Office of Management and Budget. I also appreciated the opportunity to meet or speak with many of you in advance of today's hearing. I am deeply grateful to the President for nominating me to this important position, and to Director Portman for the confidence he has shown in me in supporting my nomination.

If confirmed as Deputy Director, I will be assisting Director Portman in dealing with many challenging issues facing the Administration and the Congress. OMB has a unique role in American government, with responsibilities that cover a broad range of policy, fiscal, and management issues. OMB's most visible role is the preparation of the President's annual budget request, but throughout the year OMB supports the President and his Administration in a variety of ways. If confirmed, I will work closely with members of Congress from both parties and this Committee to ensure that we are addressing the tough issues on behalf of the American people, and to ensure their tax dollars are spent wisely.

As some of you are aware, I began my government service here in the Senate many years ago, serving as an aide to Senator Phil Gramm and to the Senate Banking Committee. In my nearly twelve years of service, I developed a deep love and respect for the history, traditions, and principles embodied in this great institution. In the Senate, everyone's opinion counts. Everyone has a right to be heard, sometimes to be heard at great length. And everyone has a right to put forward their ideas and have them considered by their colleagues. It is a reflection of the fact that no one person, Administration, Committee, or party, has a monopoly on wisdom and good ideas. And it is through dialogue and cooperation that truly great achievements are often possible.

I know this Committee is particularly concerned with many of the management issues faced by OMB. When I first joined OMB in late 2001 as an Associate Director, I was struck by the strong concern and emphasis placed on management issues by OMB senior leadership, by Director Daniels, and by the President himself. This management focus continued under subsequent leaders at OMB, in particular under the able leadership and guidance of the current Deputy Director for Management Clay Johnson. If confirmed, I look forward to working with Clay, Director Portman, and Members of this Committee to ensure continued progress on the President's Management Agenda and the execution of OMB's important management responsibilities. In my view, good management and responsible budgeting are inseparable.

This week as part of the Mid-Session Review, OMB reported good progress in meeting the President's goal of cutting the deficit in half. We are on track to meet the President's goal, and to do so a year early in Fiscal Year 2008. For the current year, the projected deficit has dropped substantially from estimates made back in February, and is now expected to be $296 billion, or 2.3 percent of GDP. This is a remarkable achievement considering that in 2006 the budget bore substantial costs from the ongoing global war on terror and the response to Hurricanes Katrina and Rita. Our progress on the deficit has been driven by a strong economy, which for the second year in a row is providing a double-digit percentage increase in federal revenues.

Since the President's pro-growth tax cuts were fully implemented in 2003, the U.S. economy has come back strongly from the effects of recession, terrorist attack, and corporate scandals. The economy has grown for 18 consecutive quarters, and grew at an annual rate of 5.6 percent in the first quarter of this year. The economy has created 5.4 million jobs since August 2003, and at 4.6 percent our unemployment

rate is lower than the average rate of the last four decades. To make continued progress on the deficit, we need to continue the policies that helped create this strong economic performance, and we need to continue our combined efforts to restrain spending. Working together, Congress and the President have reduced the growth of non-security discretionary spending every year that he's been in office and last year Congress passed bills that actually reduce this spending below the previous year's level. Earlier this year, Congress passed the first spending reconciliation bill in nearly a decade.

In the near term, budget process reforms and tools like the line-item veto can help us control spending growth, eliminate wasteful spending items, and improve accountability. I am encouraged that the House has already passed the line-item veto with a strong bipartisan vote, and that the Senate is actively engaged in considering budget process reform, including the line-item veto.

In the long term, our major entitlement programs are projected to grow faster than inflation, faster than the economy, and faster than our economy's ability to sustain them. Millions of our citizens rely on these programs, and we have a responsibility to preserve them for future generations. To do so will require sound and innovative reforms, and if confirmed I would welcome your input and advice on how we can best achieve them.

Again, I appreciate the Committee's consideration of my nomination, and I look forward to answering your questions.

BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED OF NOMINEES

A. BIOGRAPHICAL INFORMATION

1. **Name: (Include any former names used.)**

   Stephen Scott McMillin
   Stephen S. McMillin
   Steve McMillin

2. **Position to which nominated:**

   Deputy Director, Office of Management and Budget

3. **Date of nomination:**

   June 12, 2006

4. **Address: (List current place of residence and office addresses.)**

   Office of Management and Budget
   254 Eisenhower Executive Office Building
   Washington, DC 20503

5. **Date and place of birth:**

   July 5, 1966
   Sacramento, CA, USA

6. **Marital status: (Include maiden name of wife or husband's name.)**

   Married to Dawn Michele McMillin (maiden name Dawn Michele Fenster)

7. **Names and ages of children:**

8. **Education: List secondary and higher education institutions, dates attended, degree received and date degree granted.**

   Lewisville High School, August 1980 - May 1984, high school diploma, May 1984
   University of Texas at Austin, August 1984 – May 1989, Bachelor of Arts degree, May 1989

9. **Employment record: List all jobs held since college, including the title or description of job, name of employer, location of work, and dates of employment. (Please use separate attachment, if necessary.)**

   Counselor to the Director, Office of Management and Budget, 254 Eisenhower Executive Office Building, June 12, 2006 – Present

Deputy Assistant to the President and Advisor to the Chief of Staff, Office of the Chief of Staff, White House, Washington, DC, November 2005 – June 12, 2006

Associate Director for General Government Programs, Office of Management and Budget, Washington, DC, December 2001 – November 2005

Legislative Director, United States Senator Phil Gramm, Washington, DC, March 2001 – December 2001

Financial Economist, Committee on Banking, Housing, and Urban Affairs, United States Senate, Washington, DC, January 1999 – March 2001

Legislative Assistant, United States Senator Phil Gramm, Washington, DC, August 1991 – January 1999

Legislative Correspondent and Staff Assistant, United States Senator Phil Gramm, Washington, DC, March 1990 – August 1991

Intern, U.S. Representative Dick Armey, December 1989 – February 1990

Driver, Pizza Hut, Alexandria, VA, August 1989 – March 1990

Sales Associate, Charles T. Kennedy & Assoc., Dallas, TX, June – July 1989

10. **Government experience:** List any advisory, consultative, honorary or other part-time service or positions with federal, State, or local governments, other than those listed above.

None.

11. **Business relationships:** List all positions currently or formerly held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, or other business enterprise, educational or other institution.

None.

12. **Memberships:** List all memberships and offices currently or formerly held in professional, business, fraternal, scholarly, civic, public, charitable and other organizations.

Riverside Gardens Swim and Tennis Club, Alexandria, VA. Member since 6/2000, no positions held.

St. Luke's Episcopal Church, Alexandria, VA. Member since 2000, no positions held.

Texas Exes (University of Texas alumni organization). Membership lapsed within past 10 years, no positions held.

Texas State Society, Washington, DC. Membership lapsed within past 10 years, no positions held.

Kappa Kappa Psi (fraternal/service organization, National Honorary Band Fraternity), HQ in Stillwater OK. Lifetime member since college graduation in 1989, no positions held in past 10 years or since college graduation.

13. **Political affiliations and activities:**

(a) List all offices with a political party which you have held or any public office for which you have been a candidate.

None

(b) List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Bush/Cheney Florida 2000 Presidential Election Manual Recount, Observer in Broward County, FL, no office held.

(c) Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of $50 or more for the past 5 years.

None

14. **Honors and awards:** List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals and any other special recognitions for outstanding service or achievements.

(All items between 1984 and 1989 while attending the University of Texas at Austin)
College Scholar, College of Natural Sciences, University of Texas at Austin
Dean's List, College of Natural Sciences, University of Texas at Austin
National Merit Scholar
University of Texas Ex-Students' Association scholarship recipient
University of Texas Alumni Band scholarship recipient
Golden Key National Honor Society

15. **Published writings:** List the titles, publishers, and dates of books, articles, reports, or other published materials which you have written.

None

16. **Speeches:** Provide the Committee with four copies of any formal speeches you have delivered during the last 5 years which you have copies of and are on topics relevant to the position for which you have been nominated.

None

17. **Selection:**

(a) Do you know why you were chosen for this nomination by the President?

I believe I was chosen based on my qualifications to serve as OMB Deputy Director, namely my prior service at OMB and as a congressional staffer.

(b) What do you believe in your background or employment experience affirmatively qualifies you for this particular appointment?

I served as OMB Associate Director for General Government Programs from December 2001 until November 2005, and I served as lead budget aide to U.S. Senator Phil Gramm from [July] 1996 until December 2001.

B. FUTURE EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, business associations or business organizations if you are confirmed by the Senate?

I have none.

2. Do you have any plans, commitments or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, explain.

No

3. Do you have any plans, commitments or agreements after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization?

No

4. Has anybody made a commitment to employ your services in any capacity after you leave government service?

No

5. If confirmed, do you expect to serve out your full term or until the next Presidential election, whichever is applicable?

Yes

C. POTENTIAL CONFLICTS OF INTEREST

1. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

Due to my spouse's employment with American Airlines in which she has a 401k plan and holds stock options, and in order to avoid any potential conflicts of interest, should I be confirmed as Deputy Director of OMB I will not participate personally and substantially in any particular matter that will have a direct and predictable effect on the financial interests of American Airlines, its parent company, subsidiaries and affiliates, unless I first obtain a written waiver under 18 U.S.C. § 208(b)(1).

2. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation or affecting the administration and execution of law or public policy other than while in a federal government capacity.

None

3. Do you agree to have written opinions provided to the Committee by the designated agency ethics officer of the agency to which you are nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position?

Yes.

D. LEGAL MATTERS

1. Have you ever been disciplined or cited for a breach of ethics for unprofessional conduct by, or been the subject of a complaint to any court, administrative agency, professional association, disciplinary committee,

or other professional group? If so, provide details.

I was a member of a college honorary service fraternity (Kappa Kappa Psi) and marching band (Longhorn Band) involved in a hazing incident in Fall 1985. I and nine other students received "disciplinary probation" from the university, a status that lapsed after two years of no further disciplinary issues. I remained in the two organizations and later served as an officer in each.

2. To your knowledge, have you ever been investigated, arrested, charged or convicted (including pleas of guilty or nolo contenderes) by any federal, State, or other law enforcement authority for violation of any federal, State, county or municipal law, other than a minor traffic offense? If so, provide details.

No

3. Have you or any business of which you are or were an officer, director or owner ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details.

No

4. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.

None.

E. FINANCIAL DATA

All information requested under this heading must be provided for yourself, your spouse, and your dependents. (This information will not be published in the record of the hearing on your nomination, but it will be retained in the Committee's files and will be available for public inspection.)

AFFIDAVIT

Stephen S. McMillin, being duly sworn, hereby states that he/she has read and signed the foregoing Statement on Biographical and Financial Information and that the information provided therein is, to the best of his/her knowledge, current, accurate, and complete.

Stephen S. McMillin

Subscribed and sworn before me this 14th day of June, 2006

Belinda M. Jones Weaver
Notary Public
Commission Expires: Aug. 14, 2009

U.S. Senate Committee on Homeland Security and Governmental Affairs
Pre-hearing questionnaire for the Nomination of
Stephen S. McMillin to be Deputy Director, Office of Management and Budget

I. Nomination Process and Conflicts of Interest

1. Why do you believe the President nominated you to serve as Deputy Director of the Office of Management and Budget (OMB)?

   I believe the President chose me for this nomination based upon my service in his administration as Associate Director for General Government Programs at OMB and as an Advisor to Chiefs of Staff Card and Bolten; and also because of my experience working on the Federal budget as an aide to U.S. Senator Phil Gramm.

2. Were any conditions, expressed or implied, attached to your nomination? If so, please explain.

   No.

3. What specific background and experience affirmatively qualifies you to be Deputy Director of OMB?

   As Associate Director for General Government Programs at OMB for nearly 4 years, I participated in the formulation of four annual budgets, as well as budget amendments, supplemental, and rescission/cancellation proposals. I monitored the consideration of these proposals by the Congress, and the execution by Executive Branch agencies of the budget as approved by the Congress. I represented OMB as appropriate on behalf of Directors Daniels and Bolten in interagency discussions and interactions with members of Congress and their staff.

   As an aide to U.S. Senator Phil Gramm and the Senate Committee on Banking, Housing, and Urban Affairs, I observed and participated in the development of budget resolutions, appropriations, reconciliation, and general legislation.

4. Have you made any commitments with respect to the policies and principles you will attempt to implement as Deputy Director? If so, what are they and to whom have the commitments been made?

   Other than a general commitment to faithfully implement the President's agenda, I have made no commitments.

5. If confirmed, are there any issues from which you may have to recuse or disqualify yourself because of a conflict of interest or the appearance of a conflict of interest? If so, please explain what procedures you will use to carry out such a recusal or disqualification.

Due to my spouse's employment with American Airlines in which she has a 401k plan and holds stock options, and in order to avoid any potential conflicts of interest, should I be confirmed as Deputy Director of OMB I will not participate personally and substantially in any particular matter that will have a direct and predictable effect on the financial interests of American Airlines, its parent company, subsidiaries and affiliates, unless I first obtain a written waiver under 18 U.S.C. § 208(b)(1). Should I ever become aware of a potential conflict of interest, I will notify the Designated Agency Ethics Official to seek appropriate ethics advice.

6. According to *The Washington Post* (ALogs Show 2 Abramoff Trips to White House@, May 10, 2006), you met with Jack Abramoff on January 20, 2004, while you were the Associate Director for General Government Programs at OMB.

   1. What was the genesis of this meeting?

      David Safavian, who had recently been hired as a Counselor to the Deputy Director for Management, told me he had been contacted about a meeting regarding potential alternative uses of the Old Post Office Building. Since GSA issues were part of my portfolio, I agreed to take the meeting.

   2. What, if anything, did Mr. Abramoff ask for and what was your response?

      He asked that OMB consider, in assessing the economics of alternative uses for the Old Post Office Building, information regarding his client's interest in leasing the building from GSA to develop a hotel. I thanked him and his client for the information, but I neither promised nor took any action in response.

   3. Did you discuss the meeting with anyone else? If so, please identify who and summarize the discussion.

      Around the time of the meeting, I discussed it with one of my subordinates. I summarized the information provided during the meeting, and we agreed that it was not materially different from information that we had previously received directly from GSA about the economic potential of the Old Post Office.

   4. Were any other staff in attendance?

      To the best of my recollection, no other staff were in attendance at the meeting.

   5. Did you have other meetings with Mr. Abramoff? If so, when and what were the subjects of those meetings?

      I have had no other contact with Mr. Abramoff either before or since the January 20, 2004 meeting that I can recall.

   6. Did you regularly meet with lobbyists while serving in your position at OMB?

On occasion I received requests to meet with lobbyists and others seeking to provide information on matters of interest to OMB. I accepted some of these meetings, rejected some, and referred others to my staff.

II. Role of the Deputy Director, OMB

7. As you know, OMB has many and varied functions - from budget development and execution to a host of management responsibilities. Please describe your background and experience in relation to OMB's various roles.

As one of the four Program Associate Directors (PADs) from December 2001 until November 2005, I participated in varying degrees in all aspects of OMB's functions pertaining to the agencies for which I was responsible – the Departments of Commerce, Homeland Security, Housing, Justice, Transportation, and Treasury; and several sub-Cabinet agencies, including FCC, GSA, SBA, and SEC. I supervised a staff of about 60 career professionals and provided support and recommendations to the Director, Deputy Director, and Deputy Director for Management.

In that role, I and my staff analyzed agency budget submissions, produced recommendations for the Director, negotiated final resolution of the budget submission, and assisted in the preparation of background and explanatory materials. I assisted the legislative affairs office and relevant agency officials in presenting and explaining Administration recommendations to members of Congress and their staff.

I and my staff also monitored agency progress on all elements of the President's Management Agenda and OMB's statutory management responsibilities, under the guidance and direction of the Deputy Director for Management.

In addition, I assisted OIRA and the Legislative Reference Division in the resolution of interagency disagreements that surfaced in the course of OMB's regulatory and legislative clearance responsibilities.

8. Have you and Director Portman discussed what your role will be? If yes, what is it? If not, how do you see your role? Have you and Deputy Director for Management Johnson engaged in similar discussions? If so, please describe how you view your role in light of these discussions.

Director Portman and I have had preliminary discussions regarding the role I would play if confirmed by the Senate as Deputy Director. In general, I would act on the Director's behalf in his absence, provide him with advice and counsel in exercising his responsibilities as Director, and assist him in supervising the work of the agency.

I have also had preliminary discussions with Deputy Director for Management (DDM) Johnson regarding how we would interact should I be confirmed as Deputy Director. The responsibilities of the DDM are defined to a significant degree by statute, and I expect that DDM Johnson will continue to perform the role he has played for the last three years.

As Deputy Director, I would assist Director Portman in ensuring that the agency is fully supporting the management functions assigned to the DDM, and that those functions are well integrated with OMB's budget and clearance responsibilities.

9. How do you view your role of Deputy Director in relation to OMB's three statutory offices, the Office of Federal Financial Management (OFFM), the Office of Federal Procurement Policy (OFPP), and the Office of Information and Regulatory Affairs (OIRA)?

   Under the law, direct oversight of the functions of these statutory offices is the responsibility of the DDM. If confirmed as Deputy Director, I would work with the DDM to ensure that the activities of these statutory offices are coordinated with and supported by the activities of other parts of the agency.

10. In many agencies, the Deputy is charged with internal management of the agency. Do you expect to take on this role? If so, what do you see as the major internal management challenges and how do you plan to address them? What specific background and experience would you bring to this task?

    If confirmed, I expect to play a significant role in the internal management of the agency, as defined by Director Portman. In that role, I would draw on my previous experience as General Government PAD in managing my immediate staff and interacting with OMB's leadership and Administration office. I have not drawn any conclusions at this time about OMB's most important internal management challenges, but I do note that there are opportunities for OMB to make substantial progress in achieving results under the President's Management Agenda. If confirmed I would work closely with DDM Johnson on these matters.

11. If confirmed, how do you anticipate you will allocate and apportion your time and attention among the several key functions and responsibilities at OMB?

    The Deputy Director is second in line at OMB to the Director, assisting the Director with his responsibilities and carrying out the Director's duties when he is not available. OMB has a Deputy Director for Management, who has the lead responsibility for management issues at OMB. If confirmed, I would anticipate that I would anticipate that the majority of my time would be spent on the formulation, presentation, and execution of the President's budget and policy proposals. In addition, since OMB's management issues cannot and are not segregated from its other responsibilities, I would intend to devote significant time to the integration of the Administration's management initiatives with OMB's budget and other activities. As noted above, I would also contribute to the internal management of OMB.

12. How well does OMB's current strategic plan reflect what you plan to accomplish during your tenure as Deputy Director? How would you plan to hold yourself accountable for implementing the goals and objectives set forth in OMB's strategic plan and ensuring the integration of OMB's statutory management, budget, and policy responsibilities?

I have not reviewed the detailed goals and objectives of OMB's current strategic plan, but I believe OMB's success will be determined in large part by our success in implementing the President's agenda. If confirmed as Deputy Director, I will work with the senior career and political leadership to set ambitious and measurable goals and objectives for the organization, using the performance appraisal process to hold our managers accountable for achieving them.

13. What are the most critical challenges currently facing OMB and how will you, as Deputy Director, address these challenges? What do you anticipate will be your greatest challenges as Deputy Director?

In my opinion, OMB's most critical challenges are ensuring that further progress is made in restraining spending growth in a time of war and substantial revenue growth, that finite federal resources are optimally allocated to address our highest priorities, and that agencies are held accountable for achieving results from the expenditure of taxpayer dollars. If confirmed, I would support the ongoing efforts of OMB staff in pursuing these objectives.

III. Policy Questions

Government Management

14. OMB is required under the Government Performance and Results Act to annually develop a government-wide performance plan; this plan is expected to provide a comprehensive picture of government performance and could be used to provide a more strategic, crosscutting focus on policy and budget decisions to address goals that cut across conventional agency and program boundaries. OMB has not issued a government-wide plan in recent years.

    a. How do you plan to comply with the requirement for a government-wide plan?

    b. How can the government-wide performance plan help to focus decisions on broader issues cutting across specific agencies and their programs and reduce program overlap?

    c. What are your views on augmenting the required government-wide performance plan with a long-term strategic plan for the federal government?

    d. How would you see your role in helping to enhance the integration of agency strategic and annual planning with OMB's budget reviews?

My understanding is that the President's Budget provides a great deal of performance information and sets out long term, strategic goals. Together with the agency performance budgets and www.ExpectMore.gov it represents the government-wide performance plan.

Also www.ExpectMore.gov, a new website launched in February, reports on how well Federal programs are performing, their current performance information, and what they are doing to improve their performance. It is the most comprehensive performance information on Federal programs that exists today.

In an effort to improve program performance and facilitate the consideration of issues relating to program overlap, the Administration introduced the Government Reorganization and Program Performance Improvement Act last summer. This legislation would establish Results Commissions to examine areas where reorganization may improve the overall effectiveness, efficiency, or accountability of Executive Branch operations.

During my previous tenure at OMB, I appreciated the value of credible performance information in informing budget decisions. Performance data is integral to our understanding of what the American people are getting for their money and the implications of the President's budget proposals. I plan to continue efforts to expand OMB's use of performance data which I believe will drive continued improvement in the quality and quantity of performance information.

15. Do you propose any changes to enhance OMB's ability to lead and coordinate implementation of statutory management efforts such as the Government Performance and Results Act, the Chief Financial Officers Act, and the requirement for agencies to appoint Chief Human Capital Officers?

During my previous tenure at OMB, I observed that senior officials placed a high priority on leadership or co-leadership of the various management councils. I expect that these efforts would continue, primarily under the leadership of DDM Johnson. If confirmed, I will work with the DDM to address how OMB might enhance implementation of statutory management efforts.

16. Since 2002, OMB has used the Program Assessment Rating Tool (PART) to evaluate the management and performance of individual programs.

a. What changes, if any, do you expect to make to PART? Please explain.

During my previous tenure at OMB, the PART guidance was reviewed and refined each year in an effort to improve consistency and quality. If confirmed, I anticipate that such review and refinement would continue based on additional experience with its use.

b. GPRA was created to involve both the executive and legislative branches in the performance planning process. The PART is solely an Executive Branch effort. What do you believe to be the appropriate relationship between the PART and GPRA? What role do you believe each should play in assessing program performance?

I believe that the PART has helped OMB and the agencies in their implementation of the Government Performance and Results Act. The basic requirements of the Act require agencies to improve their performance measures, strengthen accountability for performance, and improve program effectiveness and efficiency. The PART is a detailed analytical tool which can inform managers and policymakers how well individual programs are meeting the goals of GPRA.

c. What will you do to ensure that interested stakeholders have a role in developing and assessing performance standards under the PART analysis?

If confirmed, I will encourage agencies and officials within OMB to consult with Congress and other interested stakeholders in the assessments of program management and performance. In particular, I would welcome additional dialogue with Congress on measuring and improving program performance.

d. What will you do to ensure that OMB does not exert pressure on agencies through the PART review to achieve short-term results that may actually conflict with agencies' efforts to set and achieve long-term strategic goals?

During my previous tenure at OMB, I was not aware of pressure through the PART analysis to sacrifice long-term planning for the sake of short term goals. The PART asks agencies to set and report progress on both short-term and long-term goals, and I believe PART assessments should give equal priority to both.

e. Does PART lead to second-guessing Congress in terms of program purpose and design? Do you think it is appropriate for an agency to get a poor rating under PART simply because the agency follows a Congressional mandate with which OMB disagrees?

I believe that all government programs, regardless of purpose or design, should be able to produce tangible and measurable outcomes. If changes to program design would help facilitate achieving results, I would hope a PART assessment would illuminate that fact. A program should not get a poor rating simply because it follows a Congressional mandate with which OMB disagrees.

f. Of block grant programs reviewed by PART, 8 percent have been rated as "ineffective" and 45 percent have "results not demonstrated." Block grants are designed to give state and local governments flexibility in use of funds, and many states and localities have their own performance and accountability review processes for spending under block grants. Do you think there is an inherent tension between PART and state/ local oversight of block grant programs?

It is my understanding that many block grant programs do achieve positive assessments under the PART, meaning it should be possible to apply some of the practices of effective block grant programs to those not performing as well. In addition, it may be appropriate for agencies to hold state and local grantees accountable for setting and meeting their

own outcome goals, depending on the design of the program. For example, HUD's HOME Investment Partnerships Program did well on the PART because the program requires state and local grantees to track and report on specific short- and long-term outcome performance measures. While it is often desirable to provide flexibility to state and local grantees, I believe we should always be conscious that these are federal funds, and U.S. taxpayers deserve to know what they are getting for their money.

g. Last year, Comptroller General David Walker testified at a U.S. Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Financial Management, Government Information, and International Security hearing ("21st Century Challenges: Performance Budgeting Could Help Promote Necessary Reexamination" (GAO-05-709T)). He stated that while PART is one of the Administration's means of reviewing federal programs and calling attention to the success or lack thereof of particular programs, "it is not clear that PART has had any significant impact on authorization, appropriations, and oversight activities to date." Also, an analysis of the President's FY07 budget request shows that of the 141 programs proposed for elimination or budget cuts, less than one-third have gone through the PART process, and among the 45 programs on that list, twelve were rated "adequate" and three were rated as "moderately effective." How important do you think the PART is as a tool for the Administration to assess programs? What do you think should be done for the PART to have a significant impact on Congressional decision-making?

From my previous tenure at OMB, I believe the PART and other performance information played a valuable role in determining how to allocate scarce resources when developing the President's Budget, although it is only one of many factors in making funding decisions. In addition, PART analysis can help inform managers how to improve program execution.

It is my understanding that OMB and agencies have been consulting with the Congress on the program assessments and working to provide information that will be useful to Congress in its decision-making. I will encourage OMB and agencies to continue this consultation.

h. Some claim that OMB has promoted this initiative at the expense of GPRA statutory requirements. What are your views on the relationship of this initiative to GPRA? Is there more that OMB can do to clarify this relationship?

As I mentioned earlier, I believe that the PART has helped OMB and agencies in their implementation of the Government Performance and Results Act. The Act requires agencies to identify clear outcome goals, set ambitious performance targets, and be accountable for achieving them. I believe the PART helps achieve these goals of GPRA. It also helps identify actions to improve performance, another important goal of GPRA.

17. Following GAO's January 2005 High-Risk update, OMB undertook an initiative with a broad goal of working with agencies to develop remediation plans, with goals and

milestones for reducing risks, for each of the then 25 high-risk issues. What progress has been made under this initiative? How is OMB ensuring that the specific problems identified by GAO are being addressed? To what extent do you believe agencies have the right performance measures and resource allocation plans in place to show progress toward addressing these high-risk areas?

I understand that OMB has been working with agencies and the GAO to ensure each of the remediation plans have very clear goals, milestones, and accountable officials and that where GAO or OMB identify gaps in agency plans, they are being addressed. I also understand that OMB and GAO are meeting regularly internally and with Congress to ensure adequate progress is being made.

Financial Management

18. The Improper Payments Information Act of 2002 requires agencies to reduce their improper payments. What steps will you take as Deputy Director to meet the requirements of the Act?

    It is my understanding that OFFM and the RMOs responsible for programs that account for the bulk of improper payments have made implementation of the IPIA a high priority. If confirmed, I would work with the DDM to ensure continued focus on this initiative and continued reduction of improper payments.

19. Federal financial management systems must be able to produce accurate, timely, and reliable information. Yet, this capability is lacking in many federal agencies. Do you believe OMB's financial management line of business is the best approach to addressing financial management deficiencies in government agencies and departments?

    While I do not have a detailed familiarity with progress on the Financial Management Line of Business (FMLOB), it appears to be a sensible approach for addressing financial management and financial management system deficiencies in government agencies and departments by leveraging best practices and achieving economies of scale. To be successful, however, the initiative must be grounded in sound financial management practices and well-designed systems and business processes at the agencies that continue to operate their own financial systems and act as shared service providers.

20. Specific financial management and control issues often arise that call for close government-wide attention and oversight. The President's Management Agenda highlights for particular attention erroneous payments that, according to OMB, total more than $38 billion annually. Other government-wide financial management and control issues have been identified in the GAO report on the U.S. government's consolidated financial statements, involving billions of dollars. What do you see as OMB's role in identifying and solving government-wide financial management issues?

OMB's role has been, and continues to be, an advocate for sound and effective financial management. OMB is a leader in the financial management community and uses this role to promote better financial management practices through its policies, oversight responsibilities, and continuous interaction within the community. OMB has taken an active role in establishing financial management improvement objectives and holding agencies accountable for achieving those objectives. The President's Management Agenda (PMA) Eliminating Improper Payments and Improved Financial Management Initiatives are excellent examples.

21. In its March 2006 report "Financial Management Systems: Additional Efforts Needed to Address Key Causes of Modernization Failures" (GAO-06-18), GAO indicated that more must be done in 4 key areas "to facilitate the implementation of the financial management line of business and Joint Financial Management Improvement Program (JFMIP) realignment initiatives across the government: "(1) developing a concept of operations, (2) defining standard business processes, (3) developing a strategy for ensuring that agencies are migrated to a limited number of application service providers in accordance with OMB's stated approach, and (4) defining and effectively implementing disciplined processes necessary to properly manage the specific projects." Do you agree with this assessment? If so, then what steps will you take as the Deputy Director of OMB to ensure that OMB continues addressing these challenges?

I am not intimately familiar with GAO's analysis, but if confirmed as Deputy Director I will work with DDM Johnson, the OFFM Controller, and the E-Gov Administrator to ensure an appropriate and robust response to the GAO recommendations for improving financial management systems.

Information Sharing, Government Information, Openness, and E-Government

22. Given OMB's regular involvement with other federal agencies, along with its dissemination responsibilities delineated under the Paperwork Reduction Act and the E-Government Act, what steps can OMB take to ensure that other agencies achieve the high standard of disclosure and access necessary for the government to be fully accountable to and interactive with the public? Are there steps you would like to undertake to strengthen public access to government information? If so, what are they?

It is my understanding that in December 2005 the President and OMB provided additional guidance and direction to the agencies concerning the Freedom of Information Act and policies for improving agency information dissemination and use of agency public websites. If confirmed, I would ensure that OMB conducts robust oversight of how effectively agencies implement these new directives.

23. If confirmed as the Deputy Director, would you make e-government initiatives a high priority? How would you ensure the successful government-wide implementation of the E-Government Act of 2002 and assess government-wide progress and success in e-government initiatives?

It is my understanding and experience from my previous tenure at OMB that e-government initiatives are considered a high priority, and if confirmed I will ensure that they remain so. If confirmed, I would look to the leadership of DDM Johnson and the E-government Administrator to ensure the success of these efforts.

24. What is your view of the potential for e-government to improve the public's participation in government processes? What is your view of its potential to improve public access to government information? Please explain your answer and give specific examples.

E-Government has tremendous potential to improve public participation in government processes and public access to government information. I believe it is well along the way to realizing this potential. For example, the E-Rulemaking initiative provides citizens and free and easy access to Federal rulemaking information through the Regulations.gov website. The E-Rulemaking initiative gives the public the opportunity to participate in the rulemaking process via the Internet, increasing the diversity and content to be factored into the regulatory process. In addition, Recruitment One-Stop provides Federal job seekers online recruitment services including job posting and application submission. Through the deployment of USAJOBS.gov, citizens can easily search online for employment opportunities throughout the Federal Government.

25. Congress included in the Intelligence Reform and Terrorism Prevention Act of 2004 (IRTPA) a requirement that the President establish an information sharing environment (ISE) for the sharing of terrorism information. Unfortunately, it appears that only minimal progress has been made toward achieving the ISE and that a number of the requirements set out in IRTPA have been neither promptly nor fully met. In December 2005, the 9/11 Public Discourse Project issued a final report on the implementation of each of the 9/11 Commission's recommendations; the information sharing elements received a "D," and the report found that the office of the ISE Program Manager was "not getting the support it needs from the highest levels of government." A March 2006 report by the Government Accountability Office (GAO) concluded that "more than 4 years after September 11 the federal government still lacks comprehensive policies and processes to improve the sharing of information that is critical to protecting our homeland."

a. As Deputy Director of OMB, which has government-wide oversight responsibility for information management, what steps would you take to improve information sharing efforts across federal agencies, support the efforts of the ISE Program Manager, and fulfill both the letter and spirit of section 1016 of IRTPA?

If confirmed as Deputy Director, I would rely on the continued leadership of DDM Johnson, the E-government Administrator, the Program Manager, and relevant agencies to ensure the actions required by the Intelligence Reform Act are effectively implemented.

b. What level of funding do you believe is necessary to adequately support the federal government's information sharing efforts, including the development and implementation of the ISE? Do you believe it would be helpful to have a separate

line item in the budget specifically to support the information sharing efforts of the ISE Program Manager?

I do not have a preconceived notion of what level of funding will be required to support the successful creation and implementation of the Information Sharing Environment, but I recognize its importance to the successful execution of homeland security and national security activities. If confirmed as Deputy Director, I will work with the DNI to ensure that Information Sharing Environment resources are adequately addressed.

26. Section 1016(d)(2) of IRTPA required that, within 270 days of enactment (i.e., by September 13, 2005), the President, in consultation with the Privacy and Civil Liberties Oversight Board, issue guidelines to "protect privacy and civil liberties in the development and use of the ISE." However, when the President issued Guidelines and Requirements in Support of the Information Sharing Environment on December 16, 2005 – three months after the statutory deadline – there were no specific guidelines on protecting privacy and civil liberties. Instead, the Attorney General and the Director of National Intelligence (DNI) were given an additional 180 days to develop such guidelines and submit them to the President through the Director of OMB.

a. Have such guidelines been submitted?

I am advised that the Attorney General and the Director of National Intelligence have completed a review of current agency information sharing policies and procedures, and that draft guidelines have been prepared and are undergoing interagency review.

b. Has the Privacy and Civil Liberties Oversight Board been consulted about privacy and civil liberties guidelines for information sharing? What is the role of the Privacy and Civil Liberties Board in the development of such guidelines?

It is my understanding the Board is being consulted as directed in the Intelligence Reform Act and the President's Executive Order, but if confirmed I will review this issue.

c. If confirmed, what specific steps will you take as Deputy Director to ensure that government information sharing efforts protect individuals' privacy and civil liberties?

If confirmed, I will work to help ensure that privacy and civil liberties will be protected as we improve government information sharing through OMB's oversight of agencies privacy practices and the work of the Privacy and Civil Liberties Oversight Board. In addition, I would ensure that the Privacy and Civil Liberties Board is appropriately included in OMB's clearance processes.

Fiscal Policy and Budget Process

27. Do you advocate any change in current budgetary laws, rules, or procedures to improve budget discipline?

The Administration proposed a number of changes to budgetary laws, rules, and procedures designed to improve budget discipline and program oversight, and I support these proposals. Among these proposals are the Line Item Veto, statutory caps on discretionary spending enforced by sequester, and a requirement that legislative or administrative actions that increase mandatory spending be offset.

28. What do you think is an appropriate rate of growth for discretionary spending over time?

The federal government's spending priorities are met through a combination of discretionary and mandatory spending. In some cases, the distinction between the types of expenses funded by each category of spending is arbitrary. The appropriate rate of growth for discretionary spending cannot be judged outside the context of overall spending growth. If mandatory spending growth is high, it may be necessary to further constrain discretionary spending in order to meet overall fiscal goals and keep the federal tax burden on the economy and the American people as low as possible.

29. What would be your strategy for reducing the deficit? Do you believe there are particular programs that should be subject to spending reductions as part of this strategy? Please explain.

If confirmed, I would support the approach the President has outlined for reducing the deficit: promoting a strong economy to ensure sustainable growth in tax revenues, and restraining growth in both discretionary and mandatory spending, while protecting urgent priorities such as winning the war against terrorism and securing the homeland.

In the effort to restrain spending, no program should be exempt from scrutiny, but in the long term any viable strategy for reducing the deficit and controlling spending growth must include reform of our major entitlement programs, to ensure they continue to serve beneficiaries without overwhelming the government's -- and the economy's – ability to pay for them.

30. Do you believe dynamic scoring should be used in preparing cost estimates of pending legislation?

Dynamic scoring of tax proposals could provide valuable additional information to policymakers and the public, and I support the Administration's initiative to create a new division within the Department of the Treasury's Office of Tax Analysis to estimate the economic effects of major tax proposals.

As I understand it, there are still a large number of technical issues related to translating estimated economic effects – "dynamic analysis" – into the official scoring estimates that are used in the legislative process – "dynamic scoring." Until these issues are resolved, I

believe the results of dynamic analysis can provide helpful supplemental information when reviewing legislation.

31. Many in Congress have supported the adoption of PAYGO and other budget enforcement policies to impose discipline on the budget process. The administration believes that the PAYGO point of order ought not to be applied equally to both taxes and entitlements. Assuming you support the administration=s position, what alternative mechanism would you propose as an effective means of achieving budget discipline?

    I believe there is a fundamental distinction between proposals to have the federal government spend additional taxpayer money, and proposals to let taxpayers keep more of their own money. For this reason I support the Administration's approach to controlling mandatory spending, in which spending increases must be offset by spending reductions or face an automatic sequester. I do not support applying this approach to tax cut proposals, in part because I do not support creating mechanisms that could result in automatic tax increases. In addition, some forms of PAYGO make it easier to raise taxes and increase spending than it would be cut taxes.

32. Over the years, there have been various proposals for a biennial budget with funding decisions made in odd-numbered years and with even-numbered years devoted to authorizing legislation. One of the major benefits claimed for biennial budgeting is that providing funding for a longer period of time would enhance agencies' abilities to manage their operations. Do you believe this would be achieved and, if so, what should OMB's role be in assuring the objectives of biennial budgeting are met?

    I believe that if Congress and the Administration can reach agreement on budget priorities and appropriations for a two year period, it should allow agencies to devote more time to program evaluation and aspects of management and facilitate longer-range planning. It would give OMB more time to concentrate on program evaluation and management issues and to engage in additional oversight. And it would allow Congress more time to consider legislation reauthorizing and improving major programs.

33. What are your thoughts on how or whether the federal government can or should budget for emergencies?

    For major programs that regularly fund response and recovery from natural disasters and other recurring events, the federal government can and should budget for such emergencies, based on the average frequency and severity of such events. For especially large incidents supplemental funding may still be required, but by appropriately prioritizing such funding in the regular appropriations process we should be able to minimize supplemental funding requirements.

34. What is your view of the line item veto ("enhanced rescission") proposal from the President? What is your view of the version Sen. Gregg included in his Budget Process package recently reported by the Budget Committee?

I support a legislative line-item veto, and if confirmed I would work with the Congress to see it enacted into law. I have not examined the version reported by the Senate Budget Committee in detail, but I would note that Director Portman praised the committee's efforts to restrain spending.

35. The Clinger-Cohen Act authorizes OMB to enforce accountability for agency information resources management and information technology investment decisions through the use of the budgetary process. What are your views on the use of the budget process to improve information technology management? What other incentives does OMB have at its disposal to encourage good management practices? As Deputy Director, how do you intend to enhance coordination between the Statutory Offices and the Resource Management Offices in order to improve the adoption of OMB policies and guidance across government?

From my previous tenure at OMB, I observed that the integration of the information technology review process with the budget process was a valuable tool for improving decisions and driving improved management. Agencies are particularly motivated during budget season to demonstrate the quality of planning for their proposed IT investments, and the analysis performed at this time provides useful information for OMB and the agencies as they are weighing spending priorities for the budget submission. If confirmed, I would continue to encourage the use of the budget process to improve management practices.

36. What do you believe should be OMB's role in improving the underlying supply and credibility of performance and cost information? What more can OMB do in this area and how would you, as Deputy Director, achieve this?

OMB has an important leadership role in improving the quality and reliability of performance and cost data. Through the President's Management Agenda, for instance, OMB works with agencies to increase their use of performance and financial information to manage. The Financial Performance initiative focuses on agencies having accurate and timely financial data and expanding the use of that data to make decisions. The Budget and Performance Integration initiative requires agencies to have outcome-oriented performance goals, efficiency measures, use marginal cost analysis, etc. If confirmed, I will work to continue and expand OMB's efforts in this area.

37. What controls do you believe are appropriate for discretionary spending? If caps are appropriate, how should they be set?

In addition to the annual enforcement of discretionary limits through the budget resolution or the deeming of 302a and 302b allocations, I support the enactment of statutory caps on discretionary spending, enforced by a sequester. Since they would be set by law, the level of these caps would necessarily be a product of discussions between the Administration and the Congress, and they should be consistent our overall fiscal goals. It is my understanding that the caps proposed by the Administration are part of a comprehensive policy to reduce the deficit by half from its projected peak in 2004.

38. Do you believe that adequate information about the long-term cost implications of current policies and programs is available through the budget process? Do you think modifications should be considered to bring a more future-oriented focus to the budget process with respect to both aggregate fiscal policy and the composition of the government's commitments? If so, what do you propose?

For the past several years, the President's Budget has included 5 year projections of the overall spending, receipts, and deficit picture, as well as 10 year estimates of proposed changes to mandatory spending and receipts policies. In addition, the Administration has proposed further enforcement tools to highlight the impact of legislative proposals on the unfunded obligations of major entitlement programs, and to create a point of order against such proposals that increase unfunded obligations. If confirmed, I would seek to continue improvements in the quality of OMB's analysis in this area, and to expand its use in making policy and budget decisions.

Human Capital Management

39. Many of the human capital challenges that agencies face will require targeted investments of resources, especially for training, individual performance incentives, and enhanced recruitment and retention efforts. How would you, in conjunction with the Deputy Director for Management Johnson, work with agencies to ensure they have the resources necessary to succeed in making their agencies employers of choice? Would you be an advocate for additional resources for human capital management within the administration?

Under the President's Management Agenda, agencies have adopted human capital strategies to better accomplish organizational missions. They are also developing agency budgets that target resources toward training, recruitment and other activities to ensure they have the right staff to succeed. The significant challenge in this area, in my experience, is developing plans and programs at the agencies that are sufficiently credible that funding for them is not diverted to other activities during the appropriations process. If confirmed, I would support appropriate funding for these efforts as I did during my previous tenure at OMB.

40. What is your view of the concern that, without adequate safeguards, performance-based compensation systems can be subject to favoritism and politicization of compensation decisions?

All compensation systems have the potential for abuse if not properly administered. We should not allow favoritism or politics to influence pay decisions. However, this does not mean that we should avoid reforming these systems to make performance more of a factor in each individual employee's pay. Adequate safeguards must be in place to ensure favoritism and politics are not factors about an employee's pay. In particular, managers need to clearly communicate performance expectations to their employees,

well in advance of making judgments about their employees' success in meeting these expectations.

41. What is your view on the respective roles and responsibilities of OPM and OMB in federal human capital management?

It is my understanding that OPM's primary role is to aid and advise the President on actions to promote an effective civil service in accordance with Merit System Principles. OPM also has the lead in assuring progress in the Strategic Management of Human Capital Initiative. OMB ensures that the Human Capital Initiative is implemented in concert with and in support of the other management initiatives, and is responsible for assessing the budgetary implications of the government's personnel policies. During my previous tenure at OMB, I observed that the two agencies worked closely together in promoting these goals.

42. It is often argued that one function of statutory civil service projections, such as assurances of job and pay, is to enable career civil servants to serve as a bulwark against improper politicization and abuse of the organs of government. Do you agree? If so, how can we ensure that proposals to grant increased flexibility to managers in the areas of hiring, firing, and setting of pay and benefits would not compromise the ability of the civil service system to serve this function?

I strongly agree with the merit system principles and the protections against prohibited personnel practices. If confirmed, I would insist that these provisions be upheld under any increased human resources flexibility or authority given to managers. These laws help guard Federal employees against undue political influences so that they can do their jobs and serve the taxpayers.

Acquisition and Competitive Sourcing

43. The Administration anticipates realizing cost savings and improvements in the performance of commercial functions by competing these functions between public and private entities. Should public-private competitions be the primary tool agencies use to determine which sector should perform commercial functions? Given the inherent differences between the public and private sectors, what can be done to ensure that these competitions are fair to both sectors? In your view, how should the government decide which services should be provided by government employees and which would be appropriate to be potentially provided by contractors?

It is my understanding that evidence to date shows that public-private competition for commercial functions can be a highly effective tool for achieving significant savings and better service, regardless of whether the functions are ultimately performed by contractors or by government employees under improved, more efficient procedures. Rules governing competitions must be transparent and provide for impartial and consistent decision-making.

The question of whether such competitions are appropriate for a given function should be addressed by the management and general counsel of each agency during the creation of the annual FAIR Act inventory. Federal employees should perform all inherently governmental activities and commercial activities that are unsuitable for private sector performance. Private sector performance should be considered only for activities that are commercial in nature and can be provided by contractors more efficiently and effectively than by Federal employees.

44. Congress has expressed opposition to establishment of arbitrary goals, targets, and quotas for contracting out government work. Will you commit to rejecting arbitrary goals, targets, and quotas under the President's privatization initiative?

The President does not have a privatization initiative; he has a competitive sourcing initiative. This is a very important distinction. It is my understanding that federal employees have been selected to perform over 80 percent of the work that was subjected to competition in the last three years. The goal of the initiative is not privatization, but rather to achieve greater efficiency and effectiveness in the performance of government functions, regardless of how they are ultimately performed.

In pursuing this initiative, I would reject the use of arbitrary goals, targets, and quotas. Agencies should be aggressive in identifying appropriate opportunities for performing competitions, but the number of appropriate opportunities will vary from agency to agency.

45. Do you believe that there is new work or work currently performed by contractors that should be subject to public-private competition for possible insourcing? If public-private competitions result in the greatest efficiency for work traditionally performed by government workers, why would OMB not give federal employees the opportunity to win through competition work that they can perform more efficiently than contractors?

It is my understanding that OMB Circular A-76 allows agencies to consider insourcing if competition shows that in-house performance is more beneficial to taxpayers than performance by the private sector. The Circular also allows public-private competitions for new work. If confirmed, I would encourage the Office of Federal Procurement Policy (OFPP) to work with the agencies to explore such opportunities.

46. The President's 2007 Budget proposes to reduce non-security discretionary spending below the previous year's level, and proposes savings and reforms to mandatory spending programs. Severe fiscal pressures to finance national security and homeland security priorities will continue to require the identification of cost savings. Acquisition provides an opportunity that agencies can use to reduce cost structures by leveraging the government's purchasing power through strategic sourcing of commonly acquired commodities, including those required to respond in times of emergency. Last year, OMB directed federal agencies to begin implementing strategic sourcing. What would you do, as Deputy Director, to identify areas for cost savings as a result of this initiative and ensure that agencies achieve significant savings through strategic sourcing?

If confirmed, I would look to OFPP to shape the development of a government-wide strategic sourcing governance structure. I would ask OFPP to work with GSA and other agencies to identify smart strategic sourcing strategies that will leverage the government's spending power.

Homeland Security

47. The Homeland Security Act of 2002 among other things, changed OMB's requirements for reporting funding data related to combating terrorism. Combating terrorism includes efforts to secure the homeland and those to combat terrorism overseas. Section 889 of the Homeland Security Act of 2002 required the President's budget to include an analysis of homeland security funding only. Because combating terrorism funding is embedded within appropriation accounts, agencies provide OMB with information on the portion of funding that is attributable to combating terrorism activities—both homeland security and overseas combating terrorism. OMB then uses this information to report funding information on homeland security activities only in the President's budget.

a. What action, do you believe OMB should take, if any, to help ensure that Congress has the best available funding information on all combating terrorism activities? Should OMB include funding data on overseas combating terrorism activities in the President's budget along with an analysis of homeland security funding?

It is my understanding that the Office of Management and Budget has fulfilled its reporting requirements for combating terrorism data since the Homeland Security Act of 2002 (HSA) was signed into law. During my previous tenure at OMB, staff under my supervision produced the detailed analysis of Homeland Security funding that was contained in each of the last three years' Presidential budgets. It is my understanding that the budget and agency congressional justifications contain substantial information on overseas combating terrorism activities. If confirmed, I will examine whether there are additional ways to improve the quality of information provided to Congress.

b. What do you believe should be the process and criteria for determining which accounts are classified as homeland security funding? What level of transparency should there be for these criteria and determinations?

It is my understanding that OMB consults annually with representatives from the Congressional Budget Office and the House and Senate Budget and Appropriations Committees on the definition of homeland security activities that is used in the President's Budget, as required by the Homeland Security Act.

c. According to a budget document prepared by FEMA, OMB has classified 5 percent of FEMA's budget as homeland security spending and the rest as non-homeland spending. Is this correct? What are the criteria for determining

which FEMA programs consist of homeland security spending? Do you think those criteria reflect a correct view of FEMA's work? What weight, if any, should those determinations have in deciding whether FEMA's budget requests for inclusion in the President's budget request?

It is my understanding that homeland security activities consist of programs that combat terrorism and protect against terrorist attacks. This definition is provided to all agencies to determine which programs are classified as homeland security activities. Most of FEMA's activities are focused on all-hazards response and recovery, rather than combating or protecting against terrorism. If confirmed, I will look into this issue in more detail.

d. Do you think that a separate budget function should be created for homeland security? Please explain.

During my previous tenure at OMB, I felt that the classification system developed in response to the Homeland Security Act was a valuable and adequate tool for analyzing budget requests and making budget recommendations. Much of the potential value of a separate budget function for homeland security would arise from separate, enforceable discretionary caps for such spending, like the defense (050) firewalls that were put in place from time to time under the Budget Enforcement Act. A difficulty in pursuing this option is the fact that, unlike the defense function, homeland security spending often represents only a portion of the total spending in a given appropriations account. If confirmed, I will continue to explore this issue and to encourage further dialogue with the Congress.

48. Producing a budget in a manner that balances competing priorities and provides the appropriate level of funding to do the work of the Federal government within available resources is a tremendous challenge. Homeland security needs in recent years have further exacerbated the challenge. Still, key areas, such as port security and interoperable communications, continue to be underfunded. Do you believe we are spending an adequate amount on homeland security? How would you determine the appropriate level of homeland funding? Should homeland security needs be treated with greater urgency?

Homeland security funding needs have consistently received priority treatment in the President's Budget since 9/11. Since 2001, the Administration has more than tripled spending devoted to non-defense homeland security, and the President's Budget continues to increase funding for homeland security in 2007. If confirmed, ensuring an adequate level of homeland security funding will be among my highest priorities.

Improving the security of our homeland is not just a federal responsibility, however. It requires a coordinated national commitment with cooperation among all levels of government, the private sector, and individual citizens to be successful. It also requires a recognition that there is a wide range of potential threats and risks from terrorism, and that risk can never be completely eliminated. Therefore we must set priorities and ensure that federal homeland security dollars are spent in the most cost-effective manner

possible.

49. The Homeland Security and Governmental Affairs Committee's report, "Hurricane Katrina: A Nation Still Unprepared" found fundamental shortcomings in preparedness efforts at all levels of government. Secretary Chertoff has also testified to this Committee that DHS "was not where it needed to be" in terms of preparedness for a catastrophic event before Katrina. Nevertheless, the President's proposed budget makes cuts in programs that would help first responders become more prepared, and indeed would cut funding for DHS's overall Preparedness Directorate by nearly 16 percent.

What are your views about the federal government's role in helping all levels of government prepare for catastrophic events, and what are the budget implications of that view? Specifically, do you believe that significant new resources should be dedicated to this task? What policies should this Administration pursue in assisting state and local officials in preparing for all domestic incidents - both man-made and natural? Please explain.

It is my understanding that the 2007 Budget requests $2.8 billion in DHS grants and assistance to continue enhancing the homeland security and emergency readiness of state and local governments, in addition to the $31 billion provided for such efforts government-wide over the previous 5 years. Previous Administration requests have focused such assistance on activities with a potential nexus to terrorism, a focus I believe to be appropriate. It is important to note, however, that many such improvements to preparedness are applicable to both natural and man-made domestic incidents such as communications interoperability, evacuation planning, and incident management training. If confirmed, I will review the level of resources being provided for these efforts.

50. The Homeland Security and Governmental Affairs Committee's report, "Hurricane Katrina: A Nation Still Unprepared" also found that FEMA lacks the resources needed to accomplish its mission and that resource shortages contributed to FEMA's failures in responding to Katrina. Although the Administration's 2007 budget request for FEMA contained increases, it fell short of addressing the urgent concerns about FEMA. What is your vision of the need for increased funding for FEMA?

It is my understanding that the 2007 Budget proposes $3.1 billion in gross discretionary funds for FEMA – a 13 percent increase over 2006. The 2007 Budget request would nearly double FEMA's core funding since 2001. If confirmed, I will continue to review FEMA's funding needs to ensure they are adequately prepared to respond to disasters and that its Federal responsibilities are coordinated appropriately with State and local government partners who lead preparedness and response.

51. The Homeland Security Act of 2002 requires the maintenance of certain non-homeland security missions transferred to DHS. How should OMB monitor the performance of non-homeland security missions and ensure they are not diminished under DHS' control?

While DHS was created to focus on and consolidate homeland security programs, I observed during my previous tenure at OMB that DHS' non-homeland security missions

were afforded the same level of oversight as homeland security programs. If confirmed, I will continue to support this effort.

Defense Spending

52. While the DoD budget has increased in recent years, defense spending as a share of the economy has continued to decline over time. The fleet of the U.S. Navy has dropped from 594 ships in 1987 to 281 ships today—the smallest Navy in our nation's history since the First World War. For the last 12 years, the federal government has been ordering an average of just six new ships a year. This is the lowest rate of naval ship production since 1932. If continued, our Navy soon will shrink to a fleet of 180 ships.

    The Navy, through the leadership of Admiral Mullen, is proposing to maintain in coming years a fleet of 313 ships, ending a period of ambiguity and uncertainty in Navy ship force structure planning and funding volatility. Funding this future naval force is a critical national objective. From fiscal year 2000 to 2005—according to CRS—funding for construction of new ships averaged about $10.2 billion per year. Senior Navy officials, including the CNO, have testified that an average of $13.4 billion in shipbuilding funding is needed annually for a sustained amount of time to achieve the 313-ship fleet. Would you support increasing funding for construction of new ships from the recent level of about $10 billion per year to the Navy's estimated required level of $13.4 billion per year?

    If confirmed, I would support funding ship construction at the level needed to support the National Security Strategy. I am advised that the President's FY 2007 Budget requests $8.7 billion for new Naval ship construction in FY 2007 and an average of $14.3 billion annually over FYs 2008-2011, in support of the Navy's recently-released shipbuilding plan.

53. In late 2004, and again last fall, OMB imposed topline reductions on proposed defense budgets of almost $60 billion across the Future Years Defense Plan. How do you intend to ensure that potential future defense budget reductions are driven primarily by military analysis and requirements?

    Department of Defense funding is one of the Administration's highest priorities. My understanding is that all Defense budget requests are developed in close coordination with senior Pentagon officials, using the best available analysis of military needs. The national security of the United States is obviously of paramount importance and the President's Budget this year and in the last five years reflects this reality. Since 2001, the Administration has increased the defense budget by almost 50 percent, not including Supplemental funding. While I am not familiar with the $60 billion figure cited above, it is my understanding that the Future Years Defense Plan projects substantial continued growth in DOD spending, not a reduction.

Gulf Coast Recovery

54. The Administration made a commitment that the federal government would be a full partner in the recovery and rebuilding of the areas devastated by Hurricane Katrina. A full partnership includes providing adequate resources and oversight of the recovery efforts. According to a news report ("Revolving Door Leaves McMillin At OMB Again, *The White House Bulletin*, June 14, 2006), you handled the government's spending on the Hurricane Katrina cleanup while Associate Director for General Government Programs at OMB.

    a. What were your specific responsibilities in relation to Hurricane Katrina clean-up? Did you play a role in the federal government's immediate response to Hurricane Katrina?

While at OMB, I provided internal coordination of OMB's budget and policy responsibilities regarding Hurricane Katrina response, including during the federal government's immediate response. In this role, I interacted with staff throughout the organization to coordinate the funding requests of similar agency efforts, in an effort to close gaps and minimize duplication. I stayed in regular contact with the budget officials of key agencies to get a sense of their funding needs, including the timing and magnitude of emergency supplemental funding needs that required action by the Congress.

    b. What steps did you take as Associate Director to monitor the distribution of these funds to ensure that they are being spent efficiently and that real progress is being made towards full recovery? If confirmed as Deputy, what steps would you take?

Within OMB, the DDM and the OFFM Controller led the efforts to monitor and improve oversight of the distribution of these funds, working with relevant agency CFOs and IGs. As Associate Director, I and my staff supported these efforts, and we monitored the reports prepared by DHS and other relevant agencies tracking progress on such efforts as temporary housing, debris removal, small business lending, etc. With the appointment of Don Powell as coordinator of Administration recovery efforts, I and my staff worked closely with his office to ensure that agencies were appropriately supportive of his efforts to monitor the progress of the recovery effort. If confirmed, I will ensure the OMB continues such activity.

    c. In your previous position, did you work to ensure that there was transparency with regard to the federal dollars obligated to the storm ravaged area? If confirmed as Deputy, would you consider this to be a priority?

As Associate Director, I and my staff worked with agency officials to fulfill the statutory requirement for regular reporting on the obligation of supplemental funds, and to improve the quality and utility of this information for Congress. This was especially important given the nature of the first two supplemental requests – primarily an infusion of $60 billion to FEMA's Disaster Relief Fund, requested and enacted in a crisis situation with little time for the normal process of justifying and analyzing funding requests. Subsequent supplemental appropriations for Katrina response received far more scrutiny

in advance of enactment, but the need for continued transparency and accountability remains. If confirmed as Deputy Director, I will ensure that OMB makes this a priority.

d. Do you anticipate another supplemental spending bill to cover ongoing recovery needs this year?

I am not aware of a requirement for a further supplemental spending bill this year for ongoing Katrina recovery needs. I would note, however, that the most recent supplemental appropriations bill provided less than the Administration's full request for the FEMA Disaster Relief Fund. If confirmed, I will closely monitor the availability of funds in this and other key accounts, so that the Administration and Congress will have adequate time to consider any such requirement.

e. Congress has allotted $11 billion to the Gulf Region for Community Development Block Grants (CBDG), which will be used to help fund the reconstruction of communities devastated by Katrina. The fourth supplemental appropriations bill, which recently passed the Senate contains another $4 billion to help rebuild communities. How will OMB work with the impacted states to ensure that the states' needs are being met on a continuing basis and that funds are being spent properly?

It is my understanding that OMB has worked closely with HUD to ensure that the CDBG funds are used properly and as intended for the rebuilding of communities in the Gulf Coast States. OMB has reviewed State Action Plans and progress reports that have been submitted to HUD, which detail state needs and the use of the CDBG disaster assistance funds. With regards to the recently appropriated $5.2 billion, HUD is consulting with the Gulf Coast Rebuilding office at DHS and OMB to allocate the funds based on state unmet needs. In addition, the most recent CDBG appropriation contains $9 million for the HUD OIG to provide additional oversight of these funds.

55. On November 1, 2005 the President announced the appointment of Donald Powell as Coordinator of Federal Support for the Recovery and Rebuilding of the Gulf Coast. According to the Executive Order released by the White House describing Powell's responsibilities, he serves as the Administration's primary point of contact with Congress, state and local governments, the private sector, and community leaders on mid and long-term recovery and rebuilding plans in response to Hurricanes Katrina and Rita.

a. Does Mr. Powell need management and oversight authority over other federal agencies to successfully manage the recovery and rebuilding effort in the Gulf Coast?

b. Does he need financial authority over other federal agencies in order to streamline financial assistance to the affected states?

c. Do you believe three years is enough time for Mr. Powell to fully oversee the long-term reconstruction of the Gulf Coast?

d. What is your vision for the Coordinator of Federal Support for the Recovery and Rebuilding of the Gulf Coast and is it currently being met?

It is my understanding that the Executive Order establishing the Coordinator's position required him to coordinate with all executive branch agencies, and directed heads of departments and agencies to provide cooperation and support in his efforts to strengthen Federal support for recovery and rebuilding of the Gulf Coast. I believe departments and agencies must continue to be accountable for their appropriated funds, and adding another layer of financial oversight might conflict with other authorities and contribute to delays in recovery.

It is my understanding is that the Administration will assess on an ongoing basis the duration of the Executive Order to ensure that the Coordinator has adequate time to make progress on the most critical near-term recovery issues. Chairman Powell will obviously play a key role in this assessment.

I believe Chairman Powell has shown tremendous leadership in performing the duties assigned to him by the President, and I expect that the Coordinator will continue to fulfill the role envisioned for him by the President, with the assistance and support of OMB and other federal agencies.

Regulatory Issues (OIRA)

56. Presidential oversight of federal regulation, primarily through the mechanism of OMB reviews of agencies' draft rules, has been conducted under successive administrations. At the same time, views on the value and appropriateness of OMB's role in the rulemaking process, and views on how OMB should carry out its role have varied.

a. What is your opinion about the role of OMB and OIRA in regulatory oversight?

b. What, if any, changes do you believe should be made in the role and procedures of OMB and OIRA in overseeing agency rulemaking?

In my opinion, the centralized oversight role performed by OMB and OIRA under Executive Order 12866 results in better analysis of proposed agency actions, consideration of a wider range of views and expertise, and ultimately in more effective and less burdensome federal regulation. While I am committed to providing strong and ongoing leadership to ensure OIRA performs its statutory and Executive Order duties effectively, I have not formed any views on specific changes to the role and procedures of OMB and OIRA in overseeing agency rulemaking. If confirmed, however, I plan to work closely with OIRA to ensure that OIRA's many responsibilities are carried out as effectively as possible.

57. OMB divides regulation into two types, budgetary rules (where the costs are paid by the taxpayer) and unfunded mandates (where the costs are incurred by nonfederal parties). Do you have any views on the circumstances under which it is more appropriate for the federal government to use each type of regulation? In the face of growing budgetary constraints on the federal government, how can OMB and OIRA help to control any tendency to replace direct federal funding with increased regulatory mandates? Can this be done without, at the same time, hindering health, safety, environment, and national security regulations that the administration or Congress deem necessary for the public good?

It is my understanding that the laws governing a particular program determine whether or not an agency has discretion to change or allocate the cost of that program through regulation. In some cases, the law simply provides for the establishment of a payment rate for a benefit program, for the provision of services to a beneficiary on behalf of the federal government, or fees for the provision of a service directly by a federal agency. The agency conducts a rulemaking to determine a fair and equitable rate (e.g., Medicare payment rates, USDA assistance, CIS fees). In other cases, the law authorizes or requires the establishment of rules governing the actions of nonfederal parties, which may result in the imposition of costs on the nonfederal parties.

Executive Order 12866 requires agencies to ensure that the anticipated costs of rules are justified by their anticipated benefits. In addition, EO 12866 and OMB Circular A-4 require a more rigorous analysis in the case of economically significant rules, and agencies must conduct additional analysis under the Unfunded Mandates Reform Act and the Regulatory Flexibility Act.

58. E.O. 12866 establishes public disclosure requirements for OIRA and for regulatory agencies with respect to OIRA review. For example, disclosure requirements apply to substantive communications between OIRA personnel and persons outside the executive branch; OMB must provide a written explanation for all regulations returned to the agency; the agency must publicly identify changes made after OIRA review; and documents exchanged between OMB and the agency must be made public.

a. Do you believe each of the disclosure requirements of E.O. 12866 is in the public interest? Why, or why not?

b. Do you believe that there are any improvements that should be made to the public disclosure rules and policies associated with OIRA's oversight of rulemaking?

c. How would you, as Deputy Director, ensure that both the spirit and the letter of the public disclosure requirements of E.O. 12866 are fully complied with?

I believe the disclosure requirements of E.O. 12866 are in the public interest, advancing the goal of improving government accountability and accessibility, while protecting the internal deliberative process of the Executive Branch. I have not formed an opinion regarding any potential improvements to these requirements, but would be willing if

confirmed to consider any reasonable proposal. I am committed to ensuring that OIRA complies with the Executive Order's requirements concerning regulatory transparency.

LIHEAP

59. The Low Income Home Energy Assistance Program, known as LIHEAP, helps low income families throughout the Nation meet their energy needs. In southern states, this assistance helps elderly people and other at-risk citizens get through potentially deadly heat waves. In northern states, this assistance helps thousands of families who literally would not be able to heat their homes during our long, cold winters without this assistance. This program has become even more critical recently as the nation struggles with an explosion in energy prices. While last winter was not as cold as it could have been, it was still extremely difficult due to the high price of home heating oil. With the price of oil over $70 per barrel, next winter could be even worse. For low income families and people on fixed incomes, it can be extremely difficult to meet rising energy prices.

    Some have suggested that LIHEAP funds be not only allocated but also appropriated a year in advance, such that funding for the winter of 2006-2007 would have already been made available in the fiscal year 2006 appropriations bill. Doing so would promote orderly planning, allow for more efficient program management, and ensure the timely availability and release of funds. Do you believe advance funding would help promote efficiencies in the LIHEAP program?

    I understand advance appropriations for LIHEAP have not been provided for several years. While it is possible advance funding could address your programmatic concerns, it could also make it harder to determine appropriate funding levels in a budget request prepared an additional 12 months in advance. If confirmed, I will take a close look at LIHEAP funding, including the option of advance appropriations.

60. LIHEAP is not available to public housing authorities, many of which have recently experienced a significant increase in utility costs. What steps do you think can be taken to assist housing authorities with these increased costs?

    It is my understanding that HUD encourages energy efficiency at public housing authorities through a variety of measures including the purchase of efficient 'ENERGY STAR' products and energy saving performance contracts to save energy and reduce operating costs.

IV. Relations with Congress

61. Do you agree without reservation to respond to any reasonable request or summons to appear and testify before any duly constituted committee of the Congress, if confirmed?

    Yes.

62. Do you agree without reservation to reply to any reasonable request for information from any duly constituted committee of the Congress, if confirmed?

    Yes.

63. How do you plan to communicate and work with Congress in carrying out OMB's responsibilities?

    OMB cannot be successful in performing its statutory responsibilities and advancing the President's agenda without the involvement and support of Congress. If confirmed, I will engage in regular communication with Congress and seek to work together to address issues of mutual concern.

64. Because of the critical nature of OMB's mission, Congress has considerable interest in, and oversight responsibility for, OMB's implementation of its statutory authorities. Accordingly, having complete, accurate, and timely information about OMB's activities is paramount to Congress' ability to carry out its responsibilities.

    a. What are your views on providing Congress timely and accurate access to federal agency records and other information to federal officials, if necessary, for Congress to fulfill its oversight responsibilities?

    b. What are your views on providing Congress and GAO access to OMB records and other information and to key federal officials within OMB?

    c. How would you propose establishing and maintaining constructive working relationships with Congress, as well as resolving any potential disputes regarding access to information and officials?

    I believe Congress should have timely access to accurate information consistent with the constitutional and statutory prerogatives and obligations of the Executive Branch. If confirmed, I will work to accommodate the interests of Congress and the GAO fully and appropriately, consistent with those constitutional and statutory prerogatives and obligations of the Executive Branch. Should I have any questions about a request for information, I would consult as appropriate with officials from OMB's General Counsel, the Counsel to the President, and the Department of Justice.

V. Assistance

65. Are these answers your own? Have you consulted with OMB or any other interested parties? If so, please indicate which entities.

I have consulted with staff in OMB to craft answers to the Committee's questions. The answers are my own.

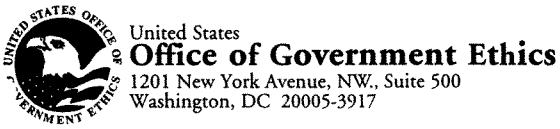
AFFIDAVIT

I, Stephen S. McMillin, being duly sworn, hereby state that I have read and signed the foregoing Statement on Pre-hearing Questions and that the information provided therein is, to the best of my knowledge, current, accurate, and complete.

Stephen S. McMillin

Subscribed and sworn before me this 10th day of July, 2006.

Bessie M. Jones Weaver
Notary Public
Commission Expires: August 14, 2009



June 26, 2006

The Honorable Susan M. Collins
Chair
Committee on Homeland Security
and Governmental Affairs
United States Senate
Washington, DC 20510-6250

Dear Madam Chair:

In accordance with the Ethics in Government Act of 1978, I enclose a copy of the financial disclosure report filed by Stephen S. McMillin, who has been nominated by President Bush for the position of Deputy Director, Office of Management and Budget.

We have reviewed the report and have also obtained advice from the Office of Management and Budget concerning any possible conflict in light of its functions and the nominee's proposed duties. Also enclosed is a letter dated June 13, 2006, from Mr. McMillin to the agency's ethics official, outlining the steps which he will take to avoid conflicts of interest. Unless a specific date has been agreed to, the nominee must fully comply within three months of his confirmation date with the actions he agreed to take in his ethics agreement.

Based thereon, we believe that Mr. McMillin is in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

Robert I. Cusick
Director

Enclosures

Post-Hearing Questions Submitted by
Senator Susan M. Collins
For the Nomination of Stephen S. McMillin
to be Deputy Director, Office of Management and Budget
July 13, 2006

1. **Question:** As the Administration noted in its Mid-Session Review released on Tuesday, since the beginning of 2003, GDP growth has averaged 4 percent per year, and is projected to hold steady at 3.5 percent this year. While this is excellent news – I note that these growth rates exceed the average growth rate our nation has achieved since the end of the Second World War – the Mid-Session Review also assumes that the GDP growth rate will trend down to 3.1 percent by 2009, and then 3.0 percent at the end of the forecast period, in 2011. The Congressional Budget Office is even less optimistic, assuming (in estimates it released in January) that GDP growth will be even lower – an average of just 2.8 percent between 2008 and 2016. I also note that the Mid-Session Review assumes that even at these growth rates, the unified budget deficit will decline to $296 billion this year, and will fall below $127 billion in 2011.

   To me, this underscores the relationship between economic growth and the healthy revenue base we will need to overcome the long-term budget challenges our nation faces. As I mentioned in my opening statement, I believe we must be mindful that the slightest slow-down in our economic growth-rate will make these challenges even more difficult than we predict today.

   Can you comment on how the deficits projected by the Administration could improve, or could worsen, depending on the actual GDP growth our economy experiences going forward?

   Answer:
   Economic growth is critical to the budget outlook. A table in the President's 2007 Budget shows that a sustained decrease of one percentage point per year in real GDP growth would increase the deficit by about $175 billion by the fifth year. The effects of a sustained increase in economic growth would be roughly symmetrical; that is, a reduction in the deficit of $175 billion by the fifth year.

   These large effects are the reason that pro-growth policies are a key element of the President's approach to reducing the deficit. In addition to tax relief, the President has worked with the Congress to strengthen the economy through a number of initiatives, including eliminating trade barriers and opening overseas markets to American products and services, reducing unnecessary litigation, limiting the burden of Government paperwork and regulations, adopting reforms in public education, and promoting research and innovation.

2. **Question:** The volume of contract spending - some $350 billion - demonstrates the importance of developing and managing contracts in way that will ensure the best contract outcomes and the best return on the taxpayers' dollar. Those who make the purchasing decisions for the federal government have considerable power and responsibility, and must guard against waste, fraud, and abuse.

   As many of this Committee's oversight hearings have made clear, the taxpayers pay the price when this fails. Our investigation of the preparation for and response to Hurricane Katrina exposed an urgent need to reform the emergency procurement process. For example, in the aftermath of Hurricanes Katrina and Rita, FEMA awarded four large sole source contracts to provide temporary housing.

   Originally, these "Big Four" contracts were valued at $100 million each. In the fall of 2005, FEMA raised the ceilings of each of these four contracts to $500 million as the demand for temporary housing was greater than expected. In testimony before this Committee, FEMA promised to me that it would compete the requirements covered by the contracts. Instead, some of the peripheral requirements contained in the contracts were stripped off and awarded competitively to small and local businesses but the main portion of the work continued to be performed by the Big Four. In February, the value of two of the Big Four contracts was again raised, with the largest now valued at $1.2 billion. I think we can all agree that awarding nearly $3 billion in sole-source contracts is not the model the federal government should employ when seeking best value, even during a catastrophic disaster.

   I do not accept the concept that we can either get essential goods and services quickly to those in need or get these goods and services at an appropriate price. There needs to be more emphasis on the use of full and open competition to procure goods and services even in an emergency situation.

   How can OMB, through the Office of Federal Procurement Policy, ensure that the federal acquisition system promotes the economy, efficiency, and effectiveness – even during emergency contracting situations – that provide the best value to taxpayers?

   Answer:
   I would look to the Office of Federal Procurement Policy (OFPP) to promote consistent use of competition and transparency in the acquisition community. I understand that OFPP has been working with the Chief Acquisition Officers Council to create a Web site with access to information that can assist the acquisition workforce in planning and addressing emergencies, and minimize the need for sole source contracting. I also understand OFPP has been coordinating agency efforts to develop and maintain emergency contracting plans that identify risks and risk mitigation efforts throughout the acquisition process. These types of efforts should help ensure that agencies are well-positioned to achieve better value for their contract actions even in the most extreme of circumstances.

3. **Question:** The Low Income Home Energy Assistance Program, known as LIHEAP, helps low income families throughout the Nation meet their energy needs. In southern states, this assistance helps elderly people and other at-risk citizens get through potentially deadly heat waves. In Maine and other northern states, LIHEAP helps thousands of families who literally would not be able to heat their homes during our long, cold winters without this assistance. For too many Maine families, high energy prices literally mean choosing between buying groceries or prescription medicine or heating your home.

   We do not administer this program in the most cost-effective way. I believe that an advance appropriation for this program would allow states, community action agencies and others that are involved to serve their LIHEAP clients during the summer months when home heating oil prices are significantly lower than in the winter months, allowing the program to make LIHEAP funding go further.

   In your response to written questions, I appreciated your stating that you would take a close look at LIHEAP funding, including the option of advance appropriations. You also noted that while it is possible advance funding could address programmatic concerns, it could also make it harder to determine appropriate funding levels in a budget request prepared an additional 12 months in advance.

   In your response to a separate question on how or whether the federal government can or should budget for emergencies, you stated that the federal government can and should budget for major programs that regularly fund response and recovery from natural disasters and other recurring events, based on the average frequency and severity of such events. In light of this response, would it make sense to provide advance funding LIHEAP based on the average cost of home heating oil prices and historical need for funding?

   Answer:
   As noted in my written response, I am committed to reviewing LIHEAP funding, including the option of advance appropriations. I understand that households in northeastern States, including Maine, rely on home heating oil as their primary fuel source to a large degree. Based on your suggestion, OMB can work with the Department of Health and Human Services and explore if there are ways to increase the cost effectiveness of the program by taking advantage of seasonal variations in fuel costs.

4. **Question:** I have supported the adoption of PAYGO and other budget enforcement policies to impose discipline on the budget process. With respect to PAYGO, I have consistently supported rules which apply equally to new tax cuts and to new entitlement spending.

   I understand that the Administration has a different view with regard to the application of the PAYGO rules to taxes. What is the rationale for applying PAYGO to just one side of the budget?

   Answer:
   I believe there is a fundamental distinction between proposals to have the federal government spend additional taxpayer money, and proposals to let taxpayers keep more of their own money. For this reason I support the Administration's approach to controlling mandatory spending, in which spending increases must be offset by spending reductions or face an automatic sequester. I do not support applying this approach to tax cut proposals. I do not believe it is appropriate for budget rules to allow paying for new entitlement spending through tax increases. In addition, a pay-as-you-go rule for taxes would create a major procedural hurdle to extending the lower tax rates enacted in the 2001 and 2003 tax acts, and therefore raise the chances of an economically damaging automatic tax increase when those rates expire.

   It is spending, not revenues, that is responsible for the significant deterioration in the long-term budget outlook. Revenues are currently at about 18 percent of GDP, near the historical average, and are projected to increase as a share of GDP in the coming decades, even with the extension of the 2001 and 2003 tax relief (see Table 13-2 of the FY 2007 Budget Analytical Perspectives volume). Entitlement-driven spending, however, is projected to grow much faster than federal revenues and much faster than the economy. In light of this, additional tools to promote spending restraint are appropriate.

Post-Hearing Questions Submitted by
Senator Joseph I. Lieberman
For the Nomination of Stephen S. McMillin,
to be Deputy Director, Office of Management and Budget

Homeland Security

1. **Question:** I am troubled that this Administration is consistently underfunding critical homeland security needs. For the past several years, I have identified billions of dollars in urgent homeland security needs that the President's budget request does not properly fund, and this year is no different. Funding to help first responders prevent or prepare for a terror attack has been cut for the third straight year; medical preparedness funds for a bioterror attack or pandemic flu remain inadequate; rail, transit, and other critical infrastructure systems remain vulnerable; and the Administration's inadequate funding levels for the Coast Guard – who played a pivotal role in response to Hurricane Katrina and are a vital piece of our overall homeland security network – leaves them to make do with antiquated equipment and a modernization plan that will take 25 years to complete. The Senate tried to remedy some of these weaknesses in its recent consideration of the FY 07 Department of Homeland Security appropriations bill, but without the vigorous support of the Administration it will be nearly impossible to achieve the needed funding levels for these programs.

   a. What is your assessment of our progress at creating a robust system of homeland security that can meet the threat of terrorism and natural disasters?

   b. What measures will you rely on to determine whether these programs are adequately funded?

Answer:
Overall funding for the government's Homeland Security programs has increased by more than 300 percent since 2001, demonstrating the Administration's strong commitment to ensuring the security of the nation from terrorist attacks. For example:

- Annual discretionary budget for the Coast Guard has increased by more than 75 percent and the Coast Guard's Deepwater program has been substantially expanded both in scope and funding to incorporate new and cutting-edge technologies that will better equip the service to meet maritime threats that have emerged since 9/11.
- Border security funding has increased by more than 90 percent adding thousands of new Border Patrol agents, detention beds, immigration enforcement officers and border security infrastructure and technology.

Creating a homeland security system that meets the threats of natural disaster and terrorism is an ongoing effort. One of the greatest challenges faced by DHS and its Federal homeland security partners is developing a more systematic and integrated approach to State and local preparedness and response. These programs need clear goals and measures to enable Federal, state, and local officials to set priorities, assess progress, and justify funding, and OMB has been working with

DHS and stakeholders to strengthen performance metrics to evaluate the effectiveness of grant funding and future grant funding priorities.

Under Homeland Security Presidential Directive 8, DHS has been developing a National Preparedness Goal and Target Capability List that lays out measurable priorities and objectives, and a system for monitoring progress. In addition, the interim National Preparedness Goal and recent Federal grant guidance have delineated a discrete number of measurable priorities to help guide funding decisions by Federal, state, and local officials, such as interoperability, catastrophic planning, citizen preparedness, and medical surge capabilities.

Program Assessment Rating Tool

2. **Question:** It is possible that a program may receive a poor PART rating because it is underfunded and needs more resources in order to accomplish its mission, yet the PART rating categories do not convey the underlying cause for the rating. For example, a simple label of "Ineffective" does not help explain the root cause of the rating assigned by OMB. Do you believe there should be a separate category such as "Ineffective Due to Lack of Funding" for programs that do not meet performance goals due to lack of resources? How can OMB do a better job of explaining the PART ratings?

Answer:
There are many reasons that a program may receive a poor PART rating. In general, programs receive poor PART scores when they fail to set performance goals, have not achieved their goals, and/or have shortcomings in how they are managed. Performance targets should be set with full consideration of the available resources, but it is certainly possible for an unforeseen funding shortfall to contribute to a program's failure to perform.

The PART rating is meant to be a high level summary of the program's effectiveness. Since the rating by itself is not very informative, the key aspects of a program's performance and the basis for its ratings are discussed in one-page summaries available at www.ExpectMore.gov. These summaries explain where programs perform well and where they fall short in plain, direct language. The detailed assessment that resulted in the rating is also available at www.ExpectMore.gov.

3. **Question:** The PART rating system appears to ignore the complexity of research programs. OMB has criticized many research projects for failing to link research activities with accomplishments of outcomes; yet often research projects that fall short of goals, or even fail, yield extremely valuable pieces of knowledge. What changes can be made to PART to recognize this unique nature of research?

Answer:
There are seven versions of the PART that are tailored to different program types. The Research and Development PART has specific guidance on how the PART questions should be applied to R&D programs, as well as some questions that focus on unique aspects to R&D. The goals included in the PART should be appropriate for the program considering its mission, how it approaches its mission, and what it aims to achieve.

All programs, including R&D programs, should focus on achieving specific outcomes for the public. For basic R&D programs, it is understood that defining and measuring those outcomes may be more challenging. Many of basic R&D programs do have performance measures relating to development of knowledge in a particular area instead of more specific outcome goals. This approach does not seem to unfairly disadvantage R&D programs since they score better than average on the PART.

Information Technology and E-Government

4. **Question:** In recent years numerous information technology programs, or programs with IT components, have incurred substantial cost-overruns and have been poorly implemented. What role can OMB play in reining in these high-risk programs before they have incurred cost overruns or imperiled agency missions?

Answer:
OMB has continued to work with agencies to monitor agency progress in managing IT investments. Since late 2005, OMB has been collecting information on the cost, schedule, and performance of high-risk information technology projects. This, along with agency budget information and the e-gov scorecard, helps to better manage agency IT investments. If confirmed as Deputy Director, I will insist that OMB work with the agencies to use this information to inform budget decisions and focus management attention, to ensure appropriate corrective action is taken as early as possible.

5. **Question:** The Department of Homeland Security's "Secure Border Initiative" (SBI) represents a reversal from its failed "America's Shield Initiative." The "SBInet" program anticipates hiring a contractor to come up with an integrated solution "which addresses all aspects of border security"; DHS will offer contractors no opinion as to how this formidable goal should be accomplished. Customs and Border Protection (CBP) plans to award this huge contract to a single "prime integrator" within months of the issuance of the solicitation, and the technologies are supposed to be deployed quickly beginning in FY '07. The program is expected to ultimately cost DHS billions of dollars.

   a. Once DHS awards the contract for SBInet, how can OMB and DHS ensure that the vague contours of the RFP do not lead to cost overruns, poor implementation, or poor performance?

   b. Won't the initial award of the contract commit DHS to a particular border security strategy, to specific technologies, and to a specific mix of technologies and personnel? Please explain your answer.

   c. Do you believe a government contractor should be given such a substantial role in formulating the nation's border security strategy? What risks, if any, are raised by such an approach?

Answer:
DHS seeks to launch the most technologically advanced border security initiative in American history. We have access to the best technology in the world, and DHS must have the technology they need to do their job and secure our border.

It is my understanding that DHS is requesting proposals that provide a realistic, reasonable, and cost effective mix of people, technology, and tactical infrastructure, and is conducting in-depth due diligence sessions and negotiations with interested companies. Rather than mandating performance targets, DHS will define program success by requiring industry to propose system performance goals to detect, identify, classify, respond, and resolve cross border violations. DHS will work closing with the bidders to negotiate and evaluate performance measures for logic and impact on cost and price. DHS will ensure competition by requiring strong organizational conflict of interest plans, approving all significant make or buy decisions proposed by the contractor, and by retaining the right to separately compete work. DHS will also assign singular accountability to the contractor for schedule, cost, and quality.

To mitigate risk, performance metrics, targets, and goals at the system and task order level will be individually negotiated. Further, the contract specified an immediate deliverable that DHS expects to implement to judge the merits of the contract offer. Through this test and further negotiations, DHS will evaluate realism of the offers proposal and reasonableness of the metric methodology and logic, as well as the impact on cost and price. To mitigate future risk, evaluations of teaming agreements and subcontracts will be conducted. This approach will provide DHS with the opportunity to ensure the agreements do not bind the government to long term pricing agreements that may not be competitive in future years.

6. **Question:** The Congressional Appropriations Committees have restricted spending on inter-agency E-Government programs. What can OMB do to demonstrate that funds for these programs are well-spent?

Answer:
I am advised that OMB has established a policy for agencies to manage and measure projects to within ten percent of baseline goals for cost, schedule and performance targets through use of an earned-value management system (EVMS), in order to improve information technology project planning and execution.

In January 2006, OMB submitted to Congress the "Report to Congress on the Benefits of the E-Government Initiatives" to fulfill reporting requirements under Section 841 of the Transportation, Treasury, Housing and Urban Development, the Judiciary, and Independent Agencies Appropriations Act of 2006 (PL 109-115). Subsequent to publishing this report, Executive Branch agency officials and OMB leadership have held briefings and discussions with appropriators regarding the benefits to the President's E-Government Initiatives. I am advised that OMB intends to publish this report annually to ensure initiative transparency to the public and Congress.

Line Item Veto

7. **Question:** In the past, I have supported the concept of a "Line Item Veto" procedure. A number of such proposals have been under consideration in the Congress this year. The House has already passed a bill; in the Senate, Majority Leader Frist introduced the Administration's proposal, and Senator Gregg has offered a variation on that proposal that is part of budget process legislation recently reported by the Budget Committee. The Gregg proposal was, I believe, crafted to respond to a number of criticisms that the Administration proposal shifts too much power from the legislative to the executive branch. Many Senators view the Gregg version as an improvement, but still potentially too much of a power shift to the executive branch.

   Would you give us your views on the appropriate balance between the executive and the legislative branches in this area? Would you support further refinements to the legislation that would respond to these concerns?

Answer:
I support a legislative line-item veto, and if confirmed I would work with the Congress to see it enacted into law. I have not examined the version reported by the Senate Budget Committee in detail, but I would note that Director Portman praised the committee's efforts to restrain spending. The question of the appropriate balance between the executive and legislative branches in this area is a question that elected officials in each branch must consider. My own view is that the proposals under consideration strengthen those in both branches who seek greater accountability in the expenditure of taxpayer funds. Ultimately, a majority in both houses of Congress must vote to cancel any line items proposed for elimination by the President, and so the legislation currently under consideration shows substantial deference to the prerogatives of Congress. If confirmed, I look forward to working with Congress on this important legislation.

Background

8. **Question:** According to information you have provided to the Committee, in January of 2004 David Safavian asked you to meet with Jack Abramoff regarding Mr. Abramoff's client's interests in leasing the Old Post Office Building from GSA. Mr. Safavian, who had recently been hired as Counselor to the Deputy Director for Management at OMB and was about to be nominated to be Administrator of the OMB Office of Federal Procurement Policy, explained that Mr. Abramoff was a former colleague of his. You agreed to the meeting. The Washington Post reported in a front page story on September 28, 2004 that Mr. Abramoff had repeatedly channeled money from his corporate clients into his foundation, and used the funds to pay for a variety of unrelated activities, including $150,000 for a golf trip to Scotland aboard a private jet in August of 2002. The article reported that Mr. Safavian, who was then Chief of Staff to the GSA Administrator, was one of Mr. Abramoff's guests on the trip. The Washington Post story quoted an OMB spokesman as saying the Scotland trip "had no business orientation to it." Safavian's participation in the Scotland trip was reported extensively by the media before he was arrested on September 19, 2005. He was subsequently convicted for concealing from investigators his efforts to assist Mr. Abramoff in acquiring two GSA properties, one of which was the Old Post Office building in Washington, D.C.. E-mails produced by the Department of Justice indicate that as early as July, 2002, Mr. Safavian was working with GSA staff and with Mr. Abramoff to influence OMB officials, including a subordinate of yours, regarding the leasing of the Old Post Office Building.

   a. When did you first learn that Mr. Safavian had accompanied Mr. Abramoff on the August, 2002 trip to Scotland?

   b. As far as you know, who else at OMB, or in the federal government generally, knew before Mr. Safavian's arrest that Mr. Safavian had asked you to meet with Mr. Abramoff? When did those individuals learn the information, and from whom?

   c. After you learned of the golf trip or Mr. Abramoff's other dealings with Mr. Safavian, did you report to any investigator, ethics officer, or other official that Mr. Safavian had asked you to meet with Mr. Abramoff? If so, please provide details about the relevant communications. If not, why not?

   d. Do you know whether any other federal employee or official reported to any investigator, ethics officer, or other official that Mr. Safavian had asked you to meet with Mr. Abramoff? If so, please provide details about the relevant communications.

Answer:

As I have previously indicated to the Committee, in January of 2004 I accepted a meeting with Mr. Abramoff and a client of his who were interested in discussing the Old Post Office. To the best of my recollection, this was the first and last contact of any kind that I have had with Mr. Abramoff. I had previously met with GSA officials and with other outside persons interested in the property, so I did not consider anything about the meeting to be remarkable or unusual. I heard a variety of views in these separate meetings about the most appropriate use of the Old Post Office, and ultimately neither I nor others at OMB were persuaded of the merits of Mr. Abramoff's position.

With regard to Mr. Safavian, at the time I had no reason to question his actions in relaying to me the request for the January 2004 meeting. Since I had previously heard from other interested parties about their views regarding the Old Post Office, I saw nothing unusual about a suggestion to hear additional information from another interested party.

To the best of my recollection, I was not aware that Mr. Safavian went on the Scotland trip with Mr. Abramoff prior to its being reported in the media. It is possible that I learned of it from the September 28, 2004 Washington Post article, but if so I knew nothing more about the matter than any other member of the public reading about it in the media.

Other than my administrative assistant, who handled the logistics of scheduling the meeting, I do not recall discussing the meeting arrangements with anyone else prior to Mr. Safavian's arrest. Prior to reading media coverage of Mr. Safavian's arrest, I was unaware of Mr. Abramoff's other dealings with Mr. Safavian, and since I had no knowledge of any wrongdoing I did not report the circumstances of the January 2004 meeting to any investigator, ethics officer, or other official. I do not know whether any other federal employee or official discussed the circumstances of the January 2004 meeting with any investigator, ethics officer, or other official.

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