

**STATEMENT OF KEN SALAZAR, SECRETARY OF THE INTERIOR
BEFORE THE SENATE ENERGY AND NATURAL RESOURCES COMMITTEE
ON THE 2012 PRESIDENT’S BUDGET REQUEST**

March 2, 2011

Mr. Chairman and members of the Committee, I am pleased to be here today to present the details of the 2012 budget request for the Department of the Interior. I want to thank the members of this Committee for your support of our Department. Your efforts have helped to build a strong foundation for our initiatives over the last two years.

The 2012 budget builds on that strong foundation with \$12.2 billion requested for the Department of the Interior. This is a freeze at the 2010 level, including significant reductions and savings totaling \$1.1 billion, while funding key priorities. The budget demonstrates that we can responsibly cut the deficit, while investing to win the future and sustain the national recovery. Our budget promotes the actions and programs that America told us are important in 50 listening sessions across the Country. With that inspiration we developed a new 21st Century conservation vision – America’s Great Outdoors. The budget continues to advance efforts that you have facilitated in renewable energy and sustainable water conservation, cooperative landscape conservation, youth in the outdoors, and reforms in our conventional energy programs.

Introduction

Interior’s mission is simple but profound – to protect America’s resources and cultural heritage and honor the Nation’s trust responsibilities to American Indians and Alaska Natives. Interior’s people and programs impact all Americans.

The Department is the steward of 20 percent of the Nation’s lands including national parks, national wildlife refuges, and the public lands. Interior manages public lands and the Outer Continental Shelf – providing access for renewable and conventional energy development and overseeing the protection and restoration of surface-mined lands. The Department of the Interior is also the largest supplier and manager of water in the 17 western States and provides hydropower resources used to power much of the country. Interior is responsible for migratory wildlife and endangered species conservation as well as the preservation of the Nation’s historic and cultural resources. The Department supports cutting edge research in the earth sciences – geology, hydrology, and biology – to inform resource management decisions at Interior and improve scientific understanding worldwide. The Department of the Interior also fulfills the Nation’s unique trust responsibilities to American Indians and Alaska Natives, and provides financial and technical assistance for the insular areas.

The Department makes significant contributions to the Nation measured in economic terms. The Interior Department supports over 1.3 million jobs and over \$370 billion in economic activity each year. Parks, refuges, and monuments generate over \$24 billion in economic activity from recreation and tourism. Conventional and renewable energy produced on Interior lands and waters results in about \$295 billion in economic benefits and the water managed by Interior supports over \$25 billion in agriculture. The American outdoor industry estimates 6.5 million

jobs are created every year from outdoor activities.

In measures that cannot be translated into dollars and cents, the Department protects the Nation's monuments and priceless landscapes, conserves wildlife and fisheries, offers unparalleled recreational opportunities, protects and interprets the cultural collections that tell America's history, and manages resources that help to fulfill the Nation's demands for energy, minerals, and water. Through its trust responsibilities on behalf of American Indians and Alaska Natives, Interior supports tribal self-governance and the strengthening of Indian communities. For affiliated island communities, the Department fulfills important commitments providing much needed technical and financial assistance.

2010 – A Year of Challenge and Success

At the start of the Administration in 2009, I set Interior on a course to create a comprehensive strategy to advance a new energy frontier; tackle the impacts of a changing landscape; improve the sustainable use of water; engage youth in the outdoors; and improve the safety of Indian communities. These priority goals integrate the strengths of the Department's diverse bureaus and offices to address key challenges of importance to the American public. Interior has been making progress in these areas, including:

- Approving 12 renewable energy projects on public lands that when built, will produce almost 4,000 megawatts of energy, enough energy to power close to one million American homes, and create thousands of construction and operational jobs.
- Designating more than 5,000 miles of transmission corridors on public lands to facilitate siting and permitting of transmission lines and processing more than 30 applications for major transmission corridor rights-of-way.
- Establishing three of eight planned regional Climate Science Centers and nine of 21 Landscape Conservation Cooperatives.
- Issuing grants to water districts and other water delivery authorities resulting in the conservation of 150,000 acre-feet of water.
- Increasing the number of youth employed in conservation through Interior or its partners increased by 45 percent over 2009 levels.
- Reducing overall crime in four Indian communities as a result of a concerted effort to increase deployed law enforcement officers, and conduct training in community policing techniques, and engage the communities in law enforcement efforts.

The tragic events resulting from the explosion and sinking of the Deepwater Horizon drilling rig in April of last year drew the attention of the world to the Gulf of Mexico. Much of the focus of Interior's bureaus and offices in 2010 was on oil spill response, Gulf Coast restoration, strengthening safety and environmental standards for offshore energy production, and re-organizing and reforming the former Minerals Management Service (MMS). Nonetheless, the Department advanced other key priorities and strategic goals that will improve the conservation and management of natural and cultural resources into the future:

- Interior, along with the Department of Agriculture, the Environmental Protection Agency, and the Council on Environmental Quality, participated in the White House Conference on America's Great Outdoors and held 50 public listening sessions across the Country that have helped shape a conservation vision and strategy for the 21st Century. We have released a report, *America's Great Outdoors: A Promise to Future Generations*, that lays out a partnership agenda for 21st century conservation and recreation.
- In the spirit of America's Great Outdoors, we welcomed new national wildlife refuges in Kansas and Colorado and proposed a new conservation area in Florida at the headwaters to the Everglades. These refuges mark a new era of conservation for the Department, one that is community-driven, science-based, and takes into account entire ecosystems and working landscapes.
- The Department worked with others to develop an action plan to bring relief for the drought-stricken California Bay-Delta area, invested over \$500 million in major water projects over the past two years, and moved forward on long-standing water availability issues in the Colorado River Basin.
- In December, I issued my recommendation to Congress to undertake an additional 5.5 miles of bridging on the Tamiami Trail in the Everglades above and beyond the 1-mile bridge now under construction. When combined with other planned work in the Everglades Agricultural Area and water conservation areas, this project should restore 100 percent of historic water quantity and flow to Everglades National Park.
- With the help of Congress, we brought about resolution of the *Cobell v. Salazar* settlement and resolved four long-standing Indian water rights issues through enactment of the Claims Resolution Act of 2010. We also completed negotiation of a new Compact of Free Association with the island of Palau which awaits Congressional approval.
- In December of last year, the President hosted the second White House Tribal Nations Conference bringing together tribal leaders from across the United States; we are improving the Nation-to-Nation relationship with 565 Tribes.

Interior's Budget In Context

In his State of the Union address in January, President Obama spoke of what it will take to “win the future.” He challenged the Nation to encourage American innovation, educate young people, rebuild America, and shrink the burden of mounting debt. Interior's 2012 budget request responds to this challenge. The investments proposed in this budget are balanced by reductions in other programs – recognizing the Nation's need to live within its means to ensure a legacy of economic strength.

Taking Fiscal Responsibility – Interior's 2012 budget must be viewed in context of the difficult fiscal times facing the Nation and the President's freeze on discretionary funding. The 2012 budget reflects many difficult budget choices, cutting worthy programs and advancing efforts to shrink Federal spending. The budget contains reductions totaling \$1.1 billion or 8.9 percent of the 2010 Enacted/2011 CR level. Staffing reductions are anticipated in some program areas,

which will be achieved through attrition, outplacement, and buy-outs to minimize the need to conduct reductions in force to the greatest extent possible. These reductions are a necessary component of maintaining overall fiscal restraint while allowing us to invest additional resources in core agency priorities.

This budget is responsible. The \$12.2 billion budget funds important investments by eliminating and reducing lower priority programs, deferring projects, reducing redundancy, streamlining management, and capturing administrative and efficiency savings. It maintains funding levels for core functions that are vital to uphold stewardship responsibilities and sustain key initiatives. The 2012 request includes \$11.2 billion for programs funded by the Interior, Environment, and Related Agencies appropriation. This is \$69.2 million, or less than one percent, above the 2010 enacted level and \$87.6 million above the 2011 annualized CR level. The 2012 request for the Bureau of Reclamation and the Central Utah Project Completion Act, funded in the Energy and Water Development Appropriations Act, is \$1.1 billion in current appropriations, \$88.3 million or eight percent below the 2010 enacted level and \$78.3 million or seven percent below the 2011 CR level.

Permanent funding that becomes available as a result of existing legislation without further action by the Congress results in an additional \$5.6 billion, for \$17.8 billion in total budget authority for Interior in 2012.

Program Reductions and Terminations – Interior’s \$12.2 billion budget proposal includes \$913.6 million in program terminations and program reductions of which \$188.0 million are featured in the President’s list of terminations and reductions. This also includes the elimination of \$47.6 million in congressional earmarks not related to land acquisition or construction.

These cuts were identified as part of a top to bottom review that considered mission criticality, the ability of partners to support the function, duplication or overlap, relevance to key initiatives, program performance, the relevance of timing and if the activity could be deferred, and short- and long-term strategic goals.

Examples of the tough decisions made in 2012 include terminating the \$7.0 million Rural Fire Assistance program which is duplicative of other fire assistance grant programs managed by the Department of Homeland Security and Department of Agriculture. The National Park Service’s Save America’s Treasures and Preserve America programs are eliminated in 2012 to focus NPS resources on the highest priority park requirements. The NPS Heritage Partnership Programs are reduced by half to encourage self-sufficiency among well-established National Heritage Areas while continuing support for newer areas. In the Bureau of Indian Affairs, the Indian Guaranteed Loan Program is reduced 63 percent in 2012 pending an evaluation of the program’s effectiveness and alternatives to improve program performance.

Program reductions are proposed in every bureau and office in the Department. One area that is reduced Interior-wide is construction. The budget includes \$178.8 million for the Bureau of Land Management, Fish and Wildlife Service, and National Park Service construction programs; in total this is a reduction of \$100.2 million or 36 percent from the 2010 enacted/2011 CR level. To achieve these reductions, the Department has frozen construction of new facilities in 2012

and deferred construction of replacement facilities. Interior's 2012 request for construction focuses on the highest priority health and safety and mission critical projects and defers lower priorities. The Department is committed to the repair and rehabilitation of current assets and funding for facility maintenance is held nearly level. The 2012 budget also slows the construction of major water management programs, including the Central Utah Completion Act. The 2012 budget request for CUPCA is \$33.0 million, a reduction of \$9.0 million.

Administrative Savings – The budget includes \$99.4 million in reductions reflecting administrative cost savings as part of the Administration's Accountable Government Initiative. These reductions will be generated by efficiencies throughout Interior, changing how the Department manages travel, employee relocation, acquisition of supplies and printing services, and the use of advisory services. These reductions are in addition to \$62.0 million in travel, information technology, and strategic sourcing savings identified as part of the President's 2011 request. These reductions are sustained in the 2012 request along with bureau-specific efficiencies.

- The Department will achieve \$42 million in savings in travel and relocation through improved management at the program level and re-examination of Departmental policies.
- An estimated \$53 million in savings will be achieved through acquisition improvement initiatives including shared contracts to use Interior-wide for the acquisition of commodities, supplies, and services. In 2011, Interior is implementing Department-wide strategic sourcing initiatives for office supplies and copier-based multifunctional devices. Savings from expanded strategic sourcing is one component of a comprehensive plan to improve acquisition practices throughout Interior.
- Efficiency savings from expanded strategic sourcing is one component of a comprehensive plan to improve acquisition practices throughout Interior. Another component to reduce advisory services spending will achieve an approximate \$15 million in savings.
- Through careful planning, strategic investments, and unprecedented cooperation, significant opportunity exists to realize efficiencies in the Department's IT infrastructure of an estimated \$36 million, including energy and cost savings. The Department has identified five primary focus areas: risk-based information security services, infrastructure consolidation, unified messaging, workstation ratio reduction, and radio site consolidation.
- The Department's 2012 budget reflects a freeze on Federal salaries for 2011 and 2012 and requirements to address fixed cost increases are limited to anticipated changes in the Federal contributions to health benefits, GSA rent increases, changes in workers and unemployment compensation costs, and specific contract requirements for P.L. 93-638 agreements.

Cost Recovery – The budget proposes to increase cost recovery to offset the cost of some resource development activities that provide clear benefits to customers.

The budget proposes to increase fees for offshore oil and gas inspections from \$10.0 million in the 2010 enacted budget to \$65.0 million in 2012. These fee collections incorporate a more robust inspection program and expand the scope of offshore inspection fees to include offshore drilling rigs, given the need for greater scrutiny of drilling operations as a core component of deepwater oil and gas development. This is consistent with the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling. The report states that the oil and gas industry should be “required to pay for its regulators” so that the costs of regulation “would no longer be funded by taxpayers but instead by the industry that is permitted to have access to a publicly owned resource.”

Similarly, the budget proposes to collect \$38.0 million for onshore oil and gas inspection activities conducted by BLM. The budget also proposes new fees totaling \$4.4 million for coal and other minerals inspections conducted by BLM to recover the costs of inspecting these operations.

Likewise, the budget proposes to decrease OSM grants to state programs that regulate the coal industry, to encourage those states to increase cost recovery fees for coal mine permit processing.

Investments for the Future

America’s Great Outdoors—Last year, the Administration initiated a national dialogue at the White House Conference on America’s Great Outdoors. In 50 listening sessions held across the Country, the public communicated their conservation and recreation priorities, and the result is a report to the President, *America’s Great Outdoors: A Promise to Future Generations*. The report outlines how the Federal Government can support a renewed and refreshed conservation vision by working in collaboration with communities, farmers and ranchers, businesses, conservationists, youth and others who are working to protect the places that matter to them and by engaging people across the country in conservation and recreation.

The report calls for the government and its partners to help conserve and recreate on the lands and places that Americans care about most. To this end, the report recommends expanding access to green spaces for recreation, restoring and connecting open spaces and rural landscapes to power economic revitalization and species conservation, , and increasing our investment of revenue from oil and gas development in the protection of open spaces. The report calls for the revision of government policies to improve program effectiveness and alignment, and leverage local, community driven efforts and asks the Federal government to be a better partner with States, Tribes, landowners, local communities, the private sector and others to meet shared conservation goals.

The 2012 President’s budget identifies resources that are targeted on these outcomes with \$5.5 billion for programs included in the America’s Great Outdoors initiative, an increase of \$363.0 million over the FY 2010 level. The components of this budget request include land management operations, programs funded through the Land and Water Conservation Fund, and grant programs focused on partnerships that conserve natural resources, restore, rivers and trails, and preserve the Nation’s historic assets.

The 2012 budget for America's Great Outdoors includes \$4.6 billion for core operations, an increase of \$13.5 million, in the land and resource management bureaus – BLM, FWS, and NPS. Increases in Interior's land management bureaus will enhance cultural and interpretative programs throughout our network of national parks, refuges and public lands. This funding will also support day-to-day operations, improve the condition of facilities, and address natural resource management needs. More than 285 million Americans and foreign tourists visited the Nation's national parks in 2009, nearly 11 million more than in 2008, a 3.9 percent increase. This was the fifth busiest year for the national park system, just missing the all-time visitation record set in 1987. The increased visitation to the national parks reinforces the importance and value Americans place on their treasured landscapes.

The initiative also includes \$675.0 million for programs funded from the Land and Water Conservation Fund. The components of this request are: \$375.0 million for Federal land acquisition, \$200.0 million for an expanded LWCF State grants program including competitive grants, and \$100.0 million for Cooperative Endangered Species Conservation Grants.

The 2012 budget for Interior and the U.S. Forest Service includes full funding, \$900 million, for the Land and Water Conservation Fund. This funding is drawn from revenue generated each year from oil and gas development. This fulfills the vision for the LWCF, with a dedicated source of funding generated from the depletion of resources to be used annually to advance resource conservation and recreational opportunities. For the 2012 budget, the Department coordinates Interior bureaus' and the Forest Service's land acquisition priorities and presents a joint conservation strategy that maximizes conservation outcomes in key geographic focal areas.

The 2012 budget also includes \$150.0 million for fish and wildlife conservation grants, an increase of \$7.0 million, including \$50.0 million for the North American Wetlands Conservation Fund, \$95.0 million for State and Tribal Wildlife Grants, and \$5.0 million for Neotropical Migratory Bird Conservation Grants. An additional \$72.4 million is proposed for NPS partnership programs, including \$62.4 million for historic preservation grants to States and Tribes, an increase of \$6.5 million and \$10.0 million for the Rivers, Trails and Conservation Assistance program, an increase of \$1.1 million.

The 2012 America's Great Outdoors initiative focuses on investments that will lead to healthy lands, waters and resources while stimulating the economy – goals that are complementary. Through strategic partnerships, Interior will support and protect historic uses of lands, restore lands and resources, protect and interpret historic and cultural resources, and expand outdoor recreation opportunities. All of these activities have significant economic benefits in rural and urban communities. An economic impact analysis completed by the Department in December 2009 estimates that in 2008 more than 400 million visits to the Nation's parks, refuges, and public lands generated nearly \$25 billion and over 300,000 jobs in recreation and tourism, contributing significantly to the economic vitality of many communities.

New Energy Frontier - The 2012 budget continues the Department's New Energy Frontier initiative to create jobs, reduce the Nation's dependence on fossil fuels and oil imports, and reduce carbon impacts. Facilitating renewable energy development is a major component of this strategy along with effective management of conventional energy programs.

The Department has made significant advances in its priority goal to increase approved capacity for renewable energy production on Interior lands by at least 10,000 megawatts by the end of 2012, while ensuring full environmental review. To date, BLM has approved projects that, when built, will generate approximately 4,000 megawatts of energy. The budget requests \$72.9 million for renewable energy programs in 2012, an increase of \$13.9 million above the 2010 enacted/2011 CR level.

While we work to develop renewable energy sources, domestic oil and gas production remain critical to our nation's energy supply and to reducing our dependence on foreign oil. As was underscored by the tragic explosion of the Deepwater Horizon and the oil spill that followed, we must take immediate steps to make production safer and more environmentally responsible. The recently-released report from the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling concludes there are risks for which neither industry nor the government have been adequately prepared. The report recommends fundamental reforms to ensure technical expertise, independence, and full consideration of environmental protection as well as continued reforms in human safety, regulatory oversight, energy exploration, and production.

The Commission's recommendations are, in many ways, a strong validation of the reforms that we at the Department of the Interior have been undertaking to promote safety and science in offshore oil and gas operations. Moreover, the Commission's findings and recommendations bolster the case for Interior's comprehensive reforms and reorganization of offshore oil and gas activities that will remedy conflicted missions, stand up a stronger regulatory framework, create an internal review unit to identify problems in a timely manner, improve agency and industry management of safety and environmental protection, and expand the team of inspectors, engineers, and other staff to oversee OCS operations. Many reforms have already been accomplished including:

-Implementation of strong new safety and environmental standards including: a safety rule that raises standards for everything from drilling equipment and well design to casing and cementing; a requirement that companies establish comprehensive risk management programs; a requirement that operators demonstrate capability to deal with a catastrophic blowout; limiting the use of categorical exclusions so that proposed lease sales and drilling projects go through rigorous environmental reviews under the National Environmental Policy Act (NEPA); and requiring companies to put their signature on the line to state that their rigs comply with safety and environmental laws and regulations.
- Termination of the controversial royalty-in-kind program, which accepted oil and natural gas from producers in lieu of cash royalty payments, in favor of a more transparent and accountable royalty collection system.
-Dissolution of the Minerals Management Service with the transfer of minerals revenue management to the Office of Natural Resources Revenue in the Office of the Secretary and creation of the Bureau of Ocean Energy Management, Regulation and Enforcement as an interim organization while further structural changes are made.
-Formulation of a plan for reorganization that will separate the offshore resource

-Development and implementation of regulations and guidance to operators responsive to the recommendations of the DOI Safety Oversight Board, the National Academy of Engineering, and the National Commission on the BP Deepwater Horizon Oil Spill.
-Completion of a review of ethics issues related to the Department's management of the OCS program and creation of the Investigations and Review Unit.
-Implementation of a recruitment strategy for BOEMRE to expand the field of inspectors and engineers, with BOEMRE receiving more than 500 applications in two weeks.
-Establishment of the Offshore Energy Safety Advisory Committee to advise BOEMRE on issues related to offshore energy safety, including drilling and workplace safety, well intervention and containment, and oil spill response.

The 2012 budget includes \$506.3 million for the components of the former Minerals Management Service to continue our efforts at reorganization and reform of both offshore energy development activities and mineral revenue collection. This includes a total program of \$358.4 million for the Bureau of Ocean Energy Management, Regulation and Enforcement, an increase of \$119.3 million, or 50 percent, over the 2010 enacted level, after adjusting for the transfer of mineral revenue collections to the new Office of Natural Resources Revenue. The budget proposes to offset BOEMRE program funding with \$160.2 million in offsetting rental receipts and cost recoveries and \$65.0 million from oil and gas inspection fees.

The budget makes investments to increase capacity for leasing and environmental review, safety and environmental enforcement, and oil spill research. This request will enable Interior to hire over 100 inspectors, engineers, and other safety and enforcement staff by the end of 2012. The 2012 budget includes funding for the Investigations and Review Unit to respond to allegations or evidence of misconduct and unethical behavior; oversee and coordinate internal auditing, regulatory oversight and enforcement systems and programs; and ensure the organization's ability to respond to emerging issues and crises, including spills and accidents. Funding is also included to support an independent advisory board that will review and analyze environmental studies and analyses to support the use of sound science in all of the Department's offshore energy activities.

The 2012 budget request also includes \$147.9 million for the Office of Natural Resources Revenue located in the Office of the Secretary. The proposed \$38.7 million increase over the 2010 enacted level will allow us to strengthen auditing and compliance efforts for royalty revenue collections and to complete the transition of the royalty-in-kind (RIK) program to royalty-in-value collections.

Youth in the Great Outdoors – Furthering the youth and conservation goals of the America's Great Outdoors initiative, the 2012 budget proposes to continue engaging youth by employing

and educating young people from all backgrounds. The 2012 budget includes \$46.8 million for youth programs, an increase of \$7.6 million above the 2010 enacted/2011 CR level.

Interior is uniquely qualified to engage and educate young people in the outdoors and has programs that establish connections for youth ages 18 to 25 with natural and cultural resource conservation. These programs help address unemployment in young adults and address health issues by encouraging exercise and outdoor activities. For example, Interior is taking part in the First Lady's *Let's Move* initiative to combat the problem of childhood obesity. The Bureau of Land Management, National Park Service and Fish and Wildlife Service have *Let's Move Outside* programs to promote physical activity for children and families on the Nation's public lands. Interior has long-standing partnerships with organizations such as the 4-H, the Boy Scouts, the Girl Scouts, the Youth Conservation Corps, and the Student Conservation Association. These programs leverage Federal investments to put young people to work and build a conservation ethic.

In 2010, Interior met its high priority performance goal to employ 15,900 in conservation-related careers through the Department or its partners. This is a 45 percent increase from 2009. The 2012 goal is to increase this youth employment by 60 percent.

Cooperative Landscape Conservation - The 2012 budget realigns programs and funding to better equip land and resource managers with the tools they need to effectively conserve resources in a rapidly changing environment. Significant changes in water availability, longer and more intense fire seasons, invasive species and disease outbreaks are creating challenges for resource managers and impacting the sustainability of resources on public lands. These changes result in bark beetle infestations, deteriorated range conditions, and water shortages that negatively impact grazing, forestry, farming, as well as the status of wildlife and the condition of their habitats. Many of these problems are caused by or exacerbated by climate change.

The 2012 Budget includes \$175.0 million for cooperative landscape conservation, an increase of \$43.8 million. The budget funds the completion of the Climate Science Centers and Landscape Conservation Cooperatives, the organizing framework for the Department's efforts to work collaboratively with others to understand and manage these changes. These efforts will allow the Department to meet its priority goal to identify resources vulnerable to climate change and implement coordinated adaptation response actions for 50 percent of the Nation by the end of 2012.

The request for USGS climate variability science is \$73 million, which includes \$14.3 million for carbon sequestration research. USGS is conducting cutting edge research in biological and geological carbon sequestration, to investigate the potential of removing carbon dioxide from the atmosphere for storage in vegetation, soils, sediments, oil and gas reservoirs and saline geologic formations. The 2012 budget will advance USGS research to assess rates and potential capacity for carbon storage in ecosystems, and evaluate the Nation's potential resources for geological storage.

Water Challenges – Interior is working to address the 21st Century pressures on the Nation's water supplies. Population growth, aging water infrastructure, changing climate, rising energy

demands, impaired water quality and environmental needs are among the challenges. Water shortage and water use conflicts have become more commonplace in many areas of the United States, even in normal water years. As competition for water resources grows, the need for information and tools to aid water resource managers also grows. Water issues and challenges are increasing across the Nation, but particularly in the West and Southeast due to prolonged drought. Traditional water management approaches no longer meet today's needs.

Reclamation proposes to fund WaterSMART at \$58.9 million, \$11.0 million below 2011 levels. The three ongoing WaterSMART programs include: the WaterSMART Grant program funded at \$18.5 million; Basin Studies funded at \$6.0 million; and the Title XVI Water Reclamation and Reuse program funded at \$29.0 million. Two programs are being added to WaterSMART in 2012, the continuing Water Conservation Field Services program, funded at \$5.1 million, and participation by Reclamation in the Cooperative Watershed Management program, funded at \$250,000. This is a joint effort with the USGS. The USGS will use \$10.9 million, an increase of \$9.0 million, for a multi-year, nationwide water availability and use assessment program. Other significant programs and highlights include:

In 2010, I issued a Secretarial Order establishing a new water sustainability strategy to coordinate Interior's water sustainability efforts, create a clearinghouse for water conservation best practices, implement a water footprint reduction program to reduce consumption of potable water by 26 percent by 2020. We are in dialogue with Mexico on the management of the Colorado River and we are actively pursuing workable solutions to regional issues such as in the California Bay-Delta.

The Bay-Delta is a source of drinking water for 25 million Californians and sustains about \$400 billion in annual economic activity, including a \$28 billion agricultural industry and up until recently supported a thriving commercial and recreational fishing industry. Our efforts in the Bay-Delta are focused on co-leading an inter-agency effort with the Council on Environmental Quality (CEQ) to implement the December 2009 Interim Federal Action Plan for the California Bay-Delta Conservation Plan. In coordination with five other Federal agencies, we are leveraging our activities to address California water issues, promote water efficiency and conservation, expand voluntary water transfers in the Central Valley, fund drought relief projects, and make investments in water infrastructure. Over the past two years, we have invested over \$500 million in water projects in California. We have also, in close coordination with NOAA and the state of California, worked on the California Bay-Delta Conservation Plan, a long-term plan aimed at restoring both reliable water supplies and a healthy Bay-Delta ecosystem.

On February 18 we announced the initial 2011 Water Supply Allocation for Central Valley Project water users. We were pleased to report that some of the CVP contractors and waters users will receive a 100 percent allocation due to the precipitation and snowpack in the Sierra Nevada Mountains and improved carryover reservoir storage. Agricultural water service contractors South-of-Delta have an initial allocation of 50 percent but this is an improvement on the 46 percent initial allocation they've averaged over the past 20 years. These allocations represent good news given recent years, but many challenges remain. We will continue to work

with our Federal, State and local partners to improve water supply reliability while addressing significant ecological issues.

Our 2012 budget for the Bureau of Reclamation includes \$53.1 million for the Central Valley Project Restoration Fund that is offset by collections estimated at \$52.8 million. The 2012 budget for Reclamation includes \$39.7 million for the California Bay-Delta Restoration account and \$35.1 million for San Joaquin River restoration. An additional \$6.9 million is included in the budget for the FWS and USGS activities in support of Bay-Delta ecosystem restoration.

Strengthening Tribal Nations - The 2012 Budget for Indian programs is \$2.5 billion, a decrease of \$118.9 million. The reduction includes completion of a one-time \$50.0 million forward funding payment to tribal colleges, completion of \$47 million in public safety projects normally funded by the Department of Justice, and \$ 14.5 million for completed water settlements.

The BIA budget includes reductions that are tougher choices, including reductions of \$27.0 million in Trust Real Estate Services, \$14.2 million in central oversight programs, and \$5.1 million in the Indian Guaranteed Loan Program.

The 2012 budget provides \$89.6 million in increases including: \$42.3 million for programs that advance the Nation-to-Nation relationship; \$20.0 million to enhance public safety and justice programs; \$18.4 million to improve trust land management; and \$8.9 million for education programs. The 2012 budget includes an increase of \$29.5 million for contract support and the Indian Self-Determination Fund – this was the highest priority of the Indian Tribes. These funds will enable Tribes to fulfill administrative requirements associated with operating programs.

The 2012 budget supports achievement of a priority goal to reduce violent crime by at least five percent within 24 months on targeted tribal reservations through a comprehensive and coordinated strategy. The budget includes \$354.7 million, an increase of \$20.0 million, for law enforcement operations, detention center operations and maintenance, tribal courts, and conservation law enforcement officers.

Indian Land and Water Settlements – The 2012 budget includes \$84.3 million in the Bureau of Reclamation and Bureau of Indian Affairs to implement land and water settlements.

The Bureau of Reclamation’s budget includes \$51.5 million, an increase of \$26.7 million, for the initial implementation of four settlements authorized in the Claims Resolution Act of 2010. The legislation included water settlements for the Taos Pueblo of New Mexico and Pueblos of New Mexico named in the Aamodt case, the Crow Tribe of Montana, and the White Mountain Apache Tribe of Arizona.

The Claims Resolution Act of 2010 establishes trust funds for Tribes to manage water systems and settlement funds to develop infrastructure. The primary responsibility for constructing these water systems was given to the Bureau of Reclamation, while the Bureau of Indian Affairs is responsible for the majority of the trust funds, which includes \$207.2 million in mandatory funding in 2011.

These settlements will deliver clean water to the Taos Pueblo and the Pueblos of Nambe, Pojoaque, San Ildefonso, and Tesuque in New Mexico, the Crow Tribe of Montana, and the White Mountain Apache Tribe of Arizona. In addition to funding for the initial implementation of these four settlements, Reclamation's budget includes \$24.8 million for the Navajo-Gallup Water Supply project. In the 2012 budget, Reclamation is establishing an Indian Water Rights Settlements account to assure continuity in the construction of the authorized projects and to highlight and enhance transparency.

The Bureau of Indian Affairs 2012 budget includes \$32.9 million for ongoing Indian land and water settlements, a reduction of \$12.9 million, reflecting completion of the Pueblo of Isleta, Puget Sound Regional Shellfish, and Soboba Band of Luiseno Indians settlements.

Land Remote Sensing – For forty years, Landsat satellites have recorded the global landscape, creating an archive of both natural and man-made changes. This imagery generates \$935 million in value for the U.S. economy by driving innovation in the agricultural, water management, and disaster response sectors. For example, foresters around the country use Landsat imagery to remotely map and monitor the status of woodlands in near real-time. This allows them to track the devastation caused by the pine bark beetle in the Rocky Mountains and monitor drought and fire-prone areas.

Landsat fills an essential need for data that is refreshed on a time scale and with a level of resolution and granular detail that is otherwise not available. Commercial data is not available that fill a void that could be created in the absence of continuous Landsat coverage.

The 2012 budget for the U.S. Geological Survey includes \$48.0 million to begin planning activities with the National Aeronautics and Space Administration for an operational Landsat program. Consistent with the Administration's National Space Policy, the 2012 budget enables the USGS to assume management responsibility for a new operational Landsat program that will ensure continuity of Landsat data in the future. USGS will provide data requirements and funding, while NASA, drawing on its historic expertise, will build the Landsat satellites on a reimbursable basis for the USGS. This new operating structure is consistent with the approach used for NOAA's JPSS weather satellites, and will ensure sufficient oversight while avoiding duplication.

The 2012 budget will enable USGS to gather and prioritize Federal user community requirements for land image data, conduct trade studies on key design alternatives related to the development of the imaging device, initiate the procurement process through NASA for the Landsat 9 and 10 instruments and spacecrafts, and establish a science advisory team, in order to launch Landsat 9 in FY 2019 and Landsat 10 in FY 2024.

Also included within a new separate account for National Land Imaging is an increase of \$13.4 million to complete the retooling of the ground receiving stations to be able to receive data from the new instruments on Landsat 8, expected to be launched in December of 2012.

Mandatory Proposals

Interior continues to generate more revenue for the U.S. Treasury than its annual discretionary appropriation. In 2012, Interior will generate revenue of approximately \$14.1 billion and propose mandatory legislation estimated to generate another \$3 billion in revenue and savings over ten years. The budget assumes the enactment of legislative proposals that we plan to submit to Congress in the coming weeks. These proposals will reform abandoned mine reclamation and hardrock mining on Federal lands, and collect a fair return to the American taxpayer for the development of Federal resources.

Reform Abandoned Mine Land Reclamation—The Administration proposes to reform the Abandoned Mine Lands program to reduce unnecessary spending and ensure that the Nation’s highest priority abandoned coal and hardrock sites are reclaimed. First, the budget proposes to terminate the unrestricted payments to States and Tribes that have been certified for completing their coal reclamation work as these payments are no longer needed for reclamation of abandoned coal mine lands. Second, the budget proposes to reform the distribution process for the remaining reclamation funding to competitively allocate available resources to the highest priority coal abandoned mine lands sites. Through a competitive grant program, a new Abandoned Mine Lands Advisory Council will review and rank the abandoned mine lands sites, so that the Office of Surface Mining can distribute grants to reclaim the highest priority coal sites each year.

Third, to address the legacy of abandoned hardrock mines across the U.S., Interior will create a parallel Abandoned Mine Lands program for abandoned hardrock sites. Like the coal program, hardrock reclamation would be financed by a new abandoned mine lands fee on the production of hardrock minerals on both public and private lands displaced after January 2012. The BLM would distribute the funds through a competitive grant program to reclaim the highest priority hardrock abandoned sites on Federal, State, tribal, and private lands.

Altogether, this proposal will save \$1.3 billion over the next ten years, focus available coal fees on the Nation’s most dangerous abandoned coal mines, and hold the hardrock mining industry responsible for cleaning up the hazards left by their predecessors.

Reform Hardrock Mining on Federal Lands – The budget proposes to provide a fair return to the taxpayer from hardrock production on Federal lands. The proposal would institute a leasing program under the Mineral Leasing Act of 1920 for certain hardrock minerals including gold, silver, lead, zinc, copper, uranium, and molybdenum, currently covered by the General Mining Law of 1872.

After enactment, mining for these metals on Federal lands would be governed by the new leasing process and subject to annual rental payments and a royalty of not less than five percent of gross proceeds. Half of the receipts would be distributed to the States in which the leases are located and the remaining half would be deposited in the Treasury. Existing mining claims would be exempt from the change to a leasing system, but would be subject to increases in the annual maintenance fees under the General Mining Law of 1872. The Office of Natural Resources Revenue will collect, account for, and disburse the hardrock royalty receipts. This proposal would generate an estimated \$100 million in revenue over ten years.

Fee on Non-producing Oil and Gas Leases – The Administration will submit a legislative proposal to encourage energy production on lands and waters leased for development. A \$4.00 per acre fee on non-producing Federal leases both onshore and offshore would provide a financial incentive for oil and gas companies to either get their leases into production or relinquish them so that the tracts can be leased to and developed by new parties. The proposed \$4.00 per acre fee would apply to all new leases and would be indexed annually. In October 2008, the Government Accountability Office issued a report critical of past efforts by Interior to ensure that companies diligently develop their Federal leases. Although the report focused on administrative actions that the Department could undertake, this proposal requires legislative action. This proposal is similar to other non-producing fee proposals considered by the Congress in the last several years. The fee is projected to generate revenues to the U.S. Treasury of \$25 million in 2012 and \$874 million over ten years.

Net Receipts Sharing for Energy Minerals – The Administration proposes to make permanent the current arrangement for sharing the cost to administer energy and minerals receipts, beginning in 2013. Under current law, States receiving significant payments from mineral revenue development on Federal lands also share in the costs of administering the Federal mineral leases from which the revenue is generated. In 2012, this net receipts sharing deduction from mineral revenue payments to States would be implemented as an offset to the Interior Appropriations Act, consistent with the provision included in 2010 and continued under the 2011 CR. Permanent implementation of net receipts sharing is expected to result in savings of \$44 million in 2013 and \$441 million over ten years.

Repeal Oil and Gas Fee Prohibition and Mandatory Permit Funds – The Administration proposes to repeal portions of Section 365 of the Energy Policy Act, beginning in 2013. Section 365 diverted mineral leasing receipts from the U.S. Treasury to a BLM Permit Processing Improvement Fund and also prohibited BLM from establishing cost recovery fees for processing applications for oil and gas permits to drill. Congress has implemented permit fees through appropriations language for the last several years and the 2012 budget proposes to continue this practice. Starting in 2013, upon elimination of the fee prohibition, BLM will promulgate regulations to administratively establish fees for applications for permits to drill. In combination with normal discretionary appropriations, these cost recovery fees will then replace the permit fees set annually through appropriations language and the mandatory permit fund, which would also be repealed starting in 2013. Savings from terminating this mandatory funding are estimated at \$20 million in 2013 and \$57 million over three years.

Geothermal Energy Receipts – The Administration proposes to repeal Section 224(b) of the Energy Policy Act of 2005. Prior to passage of this legislation, geothermal revenues were split between the Federal government and States, with 50 percent directed to States, and 50 percent to the Treasury. The Energy Policy Act of 2005 changed this distribution beginning in 2006 to direct 50 percent to States, 25 percent to counties, and for a period of five years, 25 percent to a new BLM Geothermal Steam Act Implementation Fund. The allocations to the new BLM geothermal fund were discontinued a year early through a provision in the 2010 Interior Appropriations Act. The repeal of Section 224(b) will permanently discontinue payments to counties and restore the disposition of Federal geothermal leasing revenues to the historical formula of 50 percent to the States and 50 percent to the Treasury. This results in savings of

\$6.5 million in 2012 and \$74 million over ten years.

Deep Gas and Deepwater Incentives – The Administration proposes to repeal Section 344 of the Energy Policy Act of 2005. Section 344 mandated royalty incentives for certain “deep gas” production on the OCS. This change will help ensure that Americans receive fair value for federally owned mineral resources. Based on current oil and gas price projections, the budget does not assume savings from this change; however, the proposal could generate savings to the Treasury if future natural gas prices end up below current projections.

Repeal of Authorities to Accept Royalty Payments In Kind – The Administration proposes to solidify a recent Departmental reform terminating the Royalty-in-Kind program by repealing all Interior authorities to accept future royalties through this program. This change will help increase confidence that future royalty payments will be properly accounted for. The budget does not assume savings from this change because the Administration does not anticipate restarting the program; however, if enacted, this proposal would provide additional certainty that a new Royalty-in-Kind program would not be initiated at some point in the future.

Federal Land Transaction Facilitation Act – The Administration proposes to reauthorize this Act, eliminating the 2011 sunset date and allowing lands identified as suitable for disposal in recent land use plans to be sold using the Act’s authority. The Act’s sales revenues would continue to be used to fund the acquisition of environmentally sensitive lands and the administrative costs associated with conducting sales.

Federal Migratory Bird Hunting and Conservation Stamps – Federal Migratory Bird Hunting and Conservation Stamps, commonly known as Duck Stamps, were originally created in 1934 as the annual Federal license required for hunting migratory waterfowl. Today, 98 percent of the receipts generated from the sale of these \$15.00 stamps are used to acquire important migratory bird areas for migration, breeding, and wintering. The price of the Duck Stamp has not increased since 1991, while the cost of land and water has increased significantly. The Administration proposes to increase these fees to \$25.00 per stamp per year, beginning in 2012. Increasing the price of Duck Stamps will bring the estimate for the Migratory Bird Conservation account to approximately \$58 million. With these increased receipts, the Department anticipates additional acquisition of approximately 7,000 acres in fee and approximately 10,000 acres in conservation easement in 2012. Total acres acquired for 2012 would then be approximately 28,000 acres in fee title and 47,000 acres in perpetual conservation easements.

Compact of Free Association – On September 3, 2010, the U.S. and the Republic of Palau successfully concluded the review of the Compact of Free Association and signed a 15-year agreement that includes a package of assistance through 2024. Under the agreement, Palau committed to undertake economic, legislative, financial, and management reforms. The conclusion of the agreement reaffirms the close partnership between the U.S. and the Republic of Palau. Permanent and indefinite funding for the compact expired at the end of 2010. The 2012 budget seeks to authorize permanent funding for the Compact as it strengthens the foundations for economic development by developing public infrastructure, and improving health care and education. Compact funding will also undertake one or more infrastructure projects designed to support Palau’s economic development efforts. The Republic of Palau has a strong track record

of supporting the U.S. and its location is strategically linked to Guam and U.S. operations in Kwajalein Atoll. The cost for this proposal for 2012-2021 is \$188.5 million.

Extend Service First Authority – The budget includes legislative language to extend authority for the Service First program. The laws creating Service First give Interior and Agriculture the authority to establish pilot programs that leverage joint resources. Service First allows certain land management agencies to conduct activities jointly or on behalf of one another; collocate in Federal offices or leased facilities; make reciprocal delegations of respective authorities, duties, and responsibilities; and transfer funds and provide reimbursements on an annual basis, including transfers and reimbursements for multi-year projects. This authority is currently set to expire at the end of 2011. The extension included in the budget will make the Service First authority permanent to continue these arrangements that have saved costs and improved effectiveness.

Conclusion

Thank you for the opportunity to testify on the President's 2012 budget request for the Department of the Interior. I want to reiterate my appreciation for the long-standing support of your Committee. We have a tremendous opportunity to improve the future for our children and grandchildren with smart investments. This budget has fiscal discipline and restraint, but it includes forward looking investments. For America to be at its best and win the future, we need lands that are healthy, waters that are clean, and an expanded range of energy options to power our economy. I look forward to working with you to implement this budget. This concludes my written statement. I am happy to answer any questions that you may have.