

**Statement of John W. Keys, III
Commissioner
Bureau of Reclamation
U.S. Department of the Interior
before the
House Resources Committee
Subcommittee on Water and Power**

March 3, 2005

Thank you, Mr. Chairman, Ms. Napolitano, and members of the subcommittee, Thank you again for the opportunity to appear before you today to support the President's Fiscal Year 2006 budget request for the Bureau of Reclamation. With me today is Bob Wolf, Director of Program and Budget.

Our FY 2006 request has been designed to support Reclamation's mission of delivering water and generating hydropower, consistent with applicable State and Federal law, in an environmentally responsible and cost efficient manner.

Funding is proposed for key projects that are important to the Department and in line with Administration objectives. The budget request also supports Reclamation's participation in efforts to meet emerging water supply needs to promote water conservation and sound water resource management, and help prevent conflict and crises over water in the west.

The FY 2006 request for Reclamation totals \$946.7 million and is offset by discretionary receipts in the Central Valley Project Restoration Fund of \$43.9 million and proposed hydropower direct financing of \$30.0 million. In addition, Reclamation's program includes permanent authority of \$80.0 million. The total program, after offsets to current authority and the inclusion of permanent authority, is \$952.8 million.

Water and Related Resources

The FY 2006 request for the Water and Related Resources account is \$801.6 million. The request provides funding for five major program activities: Water and Energy Management and Development (\$320.8 million); Land Management and Development (\$35.3 million); Fish and Wildlife Management and Development (\$84.0 million); Facility Operations (\$206.5 million); and Facility Maintenance and Rehabilitation (\$185.2 million). The request is partially offset by an undistributed reduction of \$30.2 million, commonly referred to as underfinancing, in anticipation of delays in construction schedules and other planned activities.

The request continues to emphasize the operation and maintenance of Reclamation facilities in a safe, efficient, economic, and reliable manner, while meeting our requirements to sustain the health and integrity of ecosystems that are connected to those operations. It will also assist the States, Tribes, and local entities in solving contemporary water resource issues in advance of crises over water.

Highlights of the FY 2006 Request for Water and Related Resources Include:

Water 2025 (\$30 million). Water 2025 allows Reclamation to continue playing an important role in working with State and local communities to develop solutions that will help meet the increased demands for limited water resources in the West, and avoid water conflicts in areas particularly susceptible to an imbalance between supply and demand. As in FY 2004 and FY 2005, funding will be directed to on-the-ground projects selected through a competitive challenge grant program with a 50:50 match.

Klamath Project in Oregon and California (\$22.0 million). The FY 2006 funding request continues on-the-ground initiatives to improve water supplies to meet agricultural, tribal, wildlife refuge, and environmental needs in the Klamath Basin and to improve fish passage and habitat. This is part of a \$62.9 million Department of the Interior request that includes the collaborative efforts of several bureaus. The initiative is focused on achieving immediate on-the-ground benefits. The 2005 water supply forecasts show that 2005 will be a challenging year for irrigators and resource managers. These early forecasts depict snow pack at 47% below average. We are currently anticipating a dry water year in the lake and in the river.

Lower Colorado River Operations Program (\$17.9 million). The FY 2006 request will provide funding to continue work on development and anticipated implementation of the Lower Colorado River Multi-Species Conservation Program (MSCP). The MSCP will provide Endangered Species Act compliance for operations and maintenance activities associated with the Colorado River from the upper end of Lake Mead to the southern border with Mexico for 50 years. The Secretary of Interior, acting through the Bureau of Reclamation, has the unique role of “water master” for the lower Colorado River. LCROP includes river operations, water service contracting and repayment, decree accounting, oversight of hydropower activities, and fulfilling the requirements of the Secretary’s role as water master.

Middle Rio Grande (\$19.0 million). The FY 2006 request continues funding in support of the Endangered Species Collaborative Program. In addition, the request continues funding for acquiring supplemental water, channel maintenance, and pursuing government-to-government consultations with Pueblos and Tribes. Finally, the funding will continue efforts that support the protection and contribute to the recovery of the Rio Grande silvery minnow and southwestern willow flycatcher. One effort that may assist the silvery minnow is a proposed sanctuary that will support all life stages of the minnow. Reclamation, the U.S. Fish and Wildlife Service, and the Middle Rio Grande Conservancy District are cooperating in the planning of a sanctuary, and design is continuing. A site has been selected and is undergoing detailed evaluation for suitability.

Animas-La Plata in Colorado and New Mexico (\$52.0 million). The FY 2006 request includes \$52.0 million for the continued construction of Ridges Basin Dam and Durango Pumping Plant and project support activities.

Columbia/Snake River Salmon Recovery in Idaho, Oregon, Montana, and Washington (\$17.5 million). This program addresses the implementation of Reasonable and Prudent Alternatives (RPAs) included in two Biological Opinions issued in December 2000. The FY 2006 funding will address significantly increased regional coordination, off-site mitigation activities in selected sub-basins to offset hydrosystem impacts, and continue research, monitoring and evaluation efforts.

Site Security (\$50.0 million). Since September 11, 2001, Reclamation has maintained heightened security at its facilities to protect the public, its employees, and infrastructure.

The funding in FY 2006 is necessary to cover the costs of site security activities including:

- Surveillance and law enforcement;
- Anti-terrorism activities that include monitoring of information, personnel security, and threat management; and
- Physical security upgrades, with a primary focus on our National Critical Infrastructure facilities.

The FY 2006 Budget Request proposes that annual costs associated with activities for guarding Reclamation facilities be treated as project O&M costs and be subject to reimbursement based upon project cost allocations. A report with a breakout of planned reimbursable and non-reimbursable costs by project, by region, will be provided to the Subcommittee by May 1, 2005.

Rural Water (\$57.5 million). The FY 2006 funding for rural water projects emphasizes a commitment to completing ongoing municipal, rural, and industrial systems that were previously included in the President's Budget. Funding is included for the Mni Wiconi, Garrison and Lewis and Clark projects. The Administration submitted a proposal to Congress last year to authorize a formal rural water program in Reclamation and while it did not pass in the last Congress, we are working closely with the authorizing committees to again move this forward; and until such legislation is enacted, funding is only requested for on-going rural water projects.

Hydropower Direct Financing (\$30.0 million). The FY 2006 budget proposes to finance the costs of operation and maintenance of certain Reclamation hydropower facilities directly from receipts collected by the Western Area Power Administration (WAPA) from the sale of electricity. Under this reclassification proposal, WAPA would transfer an agreed upon amount to the Bureau of Reclamation for deposit in its Water and Related Resources account. The transferred funds would be treated as an offsetting collection. A direct funding arrangement is already in place for the Bonneville Power Administration and some Western Area Power Administration facilities.

Safety of Dams (\$69.9 million). The safety and reliability of Reclamation dams is one of Reclamation's highest priorities. Approximately 50 percent of Reclamation's dams were built between 1900 and 1950, and 90 percent of those dams were built before the advent of current state-of-the-art foundation treatment, and before filter techniques were incorporated in embankment dams to control seepage. Safe performance of Reclamation's dams continues

to be of great concern and requires a greater emphasis on the risk management activities provided by the program. The FY 2006 request of \$69.9 million for the Safety of Dams Program will reduce risks to public safety at Reclamation dams. The increase from the FY 2005 level is for the purpose of initiating three Safety of Dams corrective actions.

Policy and Administration

The request for Policy and Administration is \$57.9 million. These funds are used to develop and implement Reclamation-wide policies, rules and regulations and to perform functions which, by statute, cannot be charged to specific project or program activities covered by separate funding authority. These funds support general administrative and management functions.

Central Valley Project Restoration Fund

The FY 2006 Reclamation budget includes a request for the CVP Restoration Fund of \$52.2 million, and is expected to be offset by discretionary receipts totaling \$43.9 million collected from project beneficiaries under provisions of Section 3407(d) of the Act. These funds will be used for habitat restoration, improvement and acquisition, and other fish and wildlife restoration activities in the Central Valley Project area of California. This fund was established by the Central Valley Project Improvement Act, Title XXXIV of P.L. 102-575, October 30, 1992. The funding request is calculated based on a three-year rolling average of collections. The net amount requested for FY 2006, after the offset, is the same as FY 2005.

California Bay-Delta Restoration (CALFED)

CALFED legislation was signed into law on October 25, 2004, and the activities authorized in the legislation include water storage investigation, conveyance program activities, continuation of the environmental water account, levee construction activities, and oversight and coordination of the program. A total of \$35.0 million is requested for California Bay-Delta Restoration in the following areas: \$10.0 million for the environmental water account; \$10.0 million for the storage program; \$3.0 million for water conveyance; \$4.0 million for water use efficiency; \$4.0 million for ecosystem restoration; and \$4.0 million for program and management and Reclamation's oversight function.

Program Assessment Rating Tool (PART)

As part of the FY 2006 budget, Reclamation's *Water Management/Supply – Planning and Construction* and *Recreation and Concessions* programs were evaluated by the PART. The entire Water Management/Supply program has been separated into three components that will be reviewed over 3 years. The 3 components include: 1) Planning and Construction, FY 2006; 2) Operations and Maintenance, FY 2007; and 3) Environmental Protection and Mitigation, FY 2008. In addition, Reclamation intends to PART the Site Security and Safety of Dams programs in FY 2007.

President's Management Agenda

E-Government: Reclamation continues to support Federal and Departmental E-Gov and Web initiatives, and anticipates increased coordination as we adopt the Department's E-Gov Strategy and scorecard for rating progress in this area. This support includes participation in planning groups, such as the Web Council, e-Authentication and E-Gov teams, as well as implementation and integration of content. Some specific initiatives requiring Reclamation involvement are the Department's Financial and Business Management System, Recreation.gov, and the Geospatial One-stop efforts. In addition, Reclamation has partnerships with numerous local, State, and Federal organizations to share water management information and facilitate coordination using E-Gov technology.

Financial Management Improvement: To support the President's Management Agenda on improving financial performance, Reclamation will continue to:

- Provide management with accurate and timely financial information to support operating, budget, and policy decisions;
- Improve financial and performance information integration;
- Ensure our financial information is fairly stated to achieve "unqualified" opinions from auditors; and
- Ensure our financial management systems fully comply with Federal financial system requirements and accounting standards.

Reclamation will continue to work closely with the Department of the Interior to improve financial processes and help consolidate information. To continue to achieve the President's and the Department's objectives for increased accountability, we will enhance our financial policies and procedures in support of the Department's *Transformation of Interior Financial Management*. This integrated business management plan, which is designed to achieve a consistent approach that will provide managers and employees with financial, performance, budget, and cost data that is timely and reliable, has many facets, including:

- The Financial and Business Management System (FBMS) which will combine various business management systems into one overall system linking planning and budget data to information performance and results;
- New processes and procedures that will allow monthly, quarterly, and annual reporting, analysis, and auditing to meet the November 15 report and audit date;
- Improving the process for issuing financial policies and procedures to help ensure consistency throughout the Department; and
- Performance measures and quality control procedures to provide standards for evaluating our processes.

Reclamation has made significant progress addressing financial management issues, including:

- Meeting OMB's accelerated November 15 deadline for completion of Reclamation's financial statements and receiving an unqualified opinion on the statements;

- Meeting and/or exceeding the Department's financial performance standards;
- Actively participating in the Department's FBMS initiative to include the functional design requirements and project management support;
- Completing eleven of twelve financial statement audit findings;
- Successfully implementing the Department's Activity Based Costing (ABC) initiative in an effort to improve budget and performance integration; and
- Completing an erroneous payment risk assessment as required by the Improper Payments Information Act of 2002.

Reclamation has received an "unqualified" opinion on all reports issued, which demonstrates our strong commitment to accurate and timely reporting. We will continue providing timely and useful information for management, the Administration, and Congress to forge effective decision-making and providing reliable and accurate information for our publics and partners to forge effective relationships.

Reclamation has been actively involved in the Department's FBMS initiative to replace its existing legacy systems with an integrated financial and business management system, and has committed staff on a full-time basis to assist the Department with the implementation of FBMS in all bureaus over the next four years. Reclamation staff has also participated in the Department's FY 2004 Blueprint effort to determine how to best design the functionality of the new enterprise system on a Department-wide basis. Reclamation will implement FBMS in a deployment to take place at the beginning of FY 2008, and will use FY 2007 to plan and prepare for the implementation.

Competitive Sourcing: Reclamation continues to comply with the Federal Activities Inventory Reform Act and OMB competitive sourcing requirement needs, e.g., training, contractor support and employee related competitive sourcing support costs. Under the revised OMB Circular A-76, *Performance of Commercial Activities*, all A-76 studies must now focus on either standard or streamlined competition, thus eliminating previously used direct conversion studies. Reclamation developed a "Green Plan" for FY 2005-2008 to guide future efforts.

Human Capital: In support of the President's Management Agenda, Human Capital Initiative and the Department's Strategic Human Capital Management Plan (FY 2003-2007), the Strategic Human Capital Management Implementation Plan (December 12, 2002), and Reclamation's Workforce Plan (2004 to 2008), numerous action items have been developed that identify implementation plans and expected results. Reclamation will dedicate staff and align human resources strategically in support of efforts necessary to close mission-critical competency gaps. It will do so by: successfully competing for talent and developing an accountability system to ensure that human capital management is merit based, effective, efficient and supportive of Reclamation's mission accomplishment.

Reclamation is implementing a new performance management system in 2005 that applies to all non-SES employees and provides for a five-level system in contrast to the previous two-level system of pass/fail. It gives management the tools to reward exceptional performance and the ability to address performance problems. This system also assures the linkage of

individual accomplishments with organizational goals. SES managers converted to this goal in 2004.

In addition, there are plans to fully implement QuickHire, an automated staffing program by FY 2006. Funding will also be directed to support additional e-Gov initiatives such as the Learning Management System for training and development.

Performance and Budget Integration: Reclamation continues to make strides in its budget and performance integration initiative. This progress includes strengthening its performance based budgeting framework through the use of integrated cost, budget and performance data to support decisionmaking. During the initial stages of budget development, budget and performance guidance are integrated and distributed to regional and area offices. The guidance sets forth requirements for integrating budget and performance on a project by project and/or program basis.

Performance targets are set during the preliminary phase of budget development, and regions are required to link all funding requests to the Department's Strategic Plan and its associated goals and measures. Throughout the 2006 budget process, performance targets are adjusted for increases/decreases in funding and analysis of project/program impacts.

During the 2006 budget development process, ABC data was used for the first time to help establish funding baselines. Implemented in 2003 in conjunction with Department's system, Reclamation has refined its ABC activities and processes over the past year, and completed a trial run of ABC reporting. During the 2007 budget development process, cost data will be further refined, analyzed and presented to Reclamation leadership with recommendations for its use in the decision making process.

FY 2006 Planned Activities

In FY 2006, Reclamation plans to continue striving for excellence in the President's management initiatives, which include competitive sourcing, strategic work force management, improved financial performance, expanded electronic government, and integrated budget and performance and asset management. The Bureau of Reclamation is committed to the Administration's management reform agenda.

Reclamation's use of activity-based cost management data, together with modifications to making the required deliveries of water under Reclamation contracts; optimize hydropower generation, consistent with other project purposes, agreements, and the President's energy policy; and incorporate environmental, recreational, land management, fish and wildlife management and enhancement, water quality control, cultural resources management, and other concerns into the water supply and power generation actions of Reclamation, are one example. Reclamation also plans to identify water supply needs for consumptive and non-consumptive purposes in Reclamation states in the next 25 years that are likely to be unmet with existing resources.

The FY 2006 budget proposes to re-allocate repayment of capital costs of the Pick-Sloan Missouri Basin program. Power customers would be responsible for repayment of all construction from which they benefit, whereas to date they have only been responsible for a portion of the costs. This change would increase reimbursements from power customers by \$33.0 million in 2006, and declining amounts in future years. Rate increases for power customers could be phased in over time. Authorizing legislation will be submitted.

The FY 2006 budget request demonstrates Reclamation's commitment in meeting the water and power needs of the West in a fiscally responsible manner. This budget continues Reclamation's emphasis on delivering and managing those valuable public resources. In cooperation and consultation with the State, tribal, and local governments, along with other stakeholders and the public at large, Reclamation offers workable solutions regarding water and power resource issues that are consistent with the demands for power and water. With the need to pursue cost effective and environmentally sound approaches, Reclamation's strategy is to continue to use the Secretary's four "C's:" "Conservation through Cooperation, Communication, and Consultation". These principles provide Reclamation an opportunity, in consultation with our stakeholders, to use decision support tools, including risk analyses, in order to develop the most efficient and cost-effective solutions to the complex challenges that we face.

Moreover, Reclamation's request reflects the need to address an aging infrastructure and the rising costs and management challenges associated with scarce water resources. As our infrastructure ages, we must direct increasing resources toward technological upgrades, new science and technologies; and preventative maintenance to ensure reliability; which will increase output, and improve safety.

Conclusion

Mr. Chairman, Please allow me to express my sincere appreciation for the continued support that this Committee has provided Reclamation. This completes my statement. I would be happy to answer any questions you may have at this time.